



## Association's Half-Year Review

**Spring Meeting of the Executive Council Notable for the Expedition With Which Business Was Transacted. Progress in the Many Activities of the Organization. Fiftieth Anniversary to Be Marked by Establishment of an Educational Foundation.**

THE event of most far-reaching importance at the Spring Meeting of the Executive Council, American Bankers Association, held at the Bon Air-Vanderbilt Hotel, Augusta, Ga., during the week of April 20, was not of a spectacular nature. It was the announcement that as an appropriate observance of the fiftieth anniversary of the formation of the American Bankers Association there is to be established an educational foundation which will be used to help worthy graduate students to pursue studies in business and banking.

It is particularly appropriate that a serviceable endowment should be used to signalize the attainment of half a century of service because some form of education always has been an impelling factor in the life of the Association. Men meet in groups and conferences to exchange ideas—to add to their education by learning from each other's experience. As the groups become more efficient in their organization they grow apace in the value both as educational institutions and as institutions of service. Hence, in all the period of its organization the American Bankers Association has rendered no higher service than in this general educational work, one feature of which is more formally and distinctively expressed in the American Institute of Banking.

Fifty thousand dollars has been set tentatively as the sum to be raised for the establishment of the foundation though it is entirely conceivable that this figure may be increased somewhat in the near future, and it is possible also that as the years run on the fund may attain an importance undreamed of now. Ten thousand dollars of the mark set has already been pledged.

This year's Spring Meeting was notable also for the celerity and expedition with which the great volume of business that comes before the members was transacted, and by the dispatch with which the scores of activities of the Association were passed in review before the Council.

Every activity touching the manifold interests of a membership of over 21,000 banks, situated in all parts of the United States, and beyond, was reported upon fully and subject to the scrutiny and judgment of the 150 members of the Council. Many of the members were impressed anew with the widespread activities of the Association in

behalf of banking, of the monetary advantages of the organization's earnest work through many channels for the betterment of all business. The work of the Association through its officers, its commissions, committees and its staff drew forth many expressions of satisfaction.

The Spring Meeting was also notable for the large attendance and for the satisfaction all experienced over the choice of this delightful place for the sessions.

Outstanding among the transactions of the Association was the recording of the sentiment of the bankers as to business conditions.

"While business prosperity has not reached the heights expected in some quarters, nevertheless, the situation need cause no anxiety," declared the Council in its formal resolutions. "It is fundamentally sound. The conservatism displayed by business men throughout the country has brought about an attitude toward future commitments which has removed the menace of inflation. The Council believes that insofar as our business prosperity has been the result of a revival of agriculture caused by undue diminution of crops in other countries, the effect is likely to be temporary, but insofar as it has been due to the rehabilitation of Europe and the liquidation of old indebtedness, on the part of our agricultural population, the results attained are likely to be permanent.

"The direction of general banking policy has been eminently successful in contributing to the maintenance of a sound credit situation. Notwithstanding the accumulation of a disproportionate share of the world's gold in this country, the inflation of credit and prices which many feared would result has not appeared. The average of commodity prices has fluctuated within a narrow range during the last three years. The maintenance of a high degree of stability in the price level requires the support of sound banking policy."

Among the recommendations made by the Council to bankers was that the State Associations should secure the passage of arbitration acts so that disputes and differences may be amicably, economically and speedily settled outside of court instead of resorting to the more formal and more costly suits at law.

# Resumé of Council Proceedings

**I**N opening the meeting President Knox said:

"I have been, as you know, in close touch with the administration office during my term so far, and I am very happily situated in that I am right on the premises. I want to give my personal testimony here to the efficiency with which that office is now being run, and to the remarkable spirit of cooperation that there is pervading all departments and to the expedition with which the work of the Association is carried out.

"No one who has not been on the ground and watched just what is going on can appreciate the amount of detail work that there is going over the desks in that office. I want to compliment everybody in the office—from the Executive Manager down—for the very excellent work that they are doing. It is a big job to keep in touch with 22,000 banks all over the country and to handle the various requests that they make for information, for advice and for a thousand and one things. All of that is met promptly and courteously and efficiently.

"I do not see how the work of the Association could be carried on if it were done in the way that we used to try to carry on the work years ago. There is a splendid efficiency and a splendid cooperation there now which makes very much for better service in every department of the Association."

Mr. Knox announced the following new members of the Executive Council: Nebraska, J. R. Cain, Jr., vice-president, Peters National Bank, Omaha, and J. M. Flannigan, cashier, Citizens Bank, Stuart; South Carolina, C. H. Yates, vice-president, Bank of Camden, Camden; Wyoming, Harry R. Weston, vice-president, American National Bank, Cheyenne; Louisiana, Eugene Cazedessus, vice-president, Bank of Baton Rouge, Baton Rouge.

## A High Record in Membership

**E**XECUTIVE Manager F. N. Shepherd, calling attention to the fact that there are now 28,398 banks in the country, stated that members in the Association now number 21,143, or about three-fourths of all the banks in the United States. He also brought out the fact that this high record of membership was maintained although the number of bank failures in 1924 registered the high water mark in the history of the United States, 757 banks having gone under. Mr. Shepherd said:

"Benefiting by the accumulated momentum of past effort projected through the various publicity avenues of your Association, the banker has become an increasingly wholesome force in business and public affairs. The utterances of your Association and its officers are today accorded a currency by the press and a deference by the public which lays upon you a tremendous responsibility for right thinking and careful speech."

Thomas B. Paton, General Counsel, reviewed the unsuccessful fight at Washington to obtain the enactment at the last Congress

of the McFadden Branch Bank Bill with the Hull amendments. Mr. Paton then told of the passage by Congress of a Federal arbitration act, saying:

"The adoption of that principle by Congress has tremendous possibilities for the future in banking. Arbitration as a substitute for litigation has many advantages. It saves expense and delay. Also the arbitrator is selected by the parties, is apt to be a man who is expert in the particular line in which the dispute arose and to give a more correct and just judgment than a jury of non-experts. This Federal arbitration act makes agreements for arbitration valid, enforceable and irrevocable. We have nearly 30,000 banks. The railroads submit all their controversies between themselves to arbitration. Why can not the bankers do the same thing? Why can not you have agreements between bank and depositor on the deposit slip that matters in dispute shall be submitted to arbitration? There are many thousands of little cases, where it does not pay to go to law, where each side thinks it is right, but would be glad to have the question settled."

The Council recommended to State Associations the enactment of the Model Arbitration Act in the different states.

## 376 Clearing House Associations

**F**OR the Clearing House Section, President C. W. Allendoerfer said that the Section reports a total of 376 Clearing House Associations, a gain of fourteen since September 1, 1924, one being a County Clearing House including all of the banks in the county." Mr. Allendoerfer continued:

"Ranking in importance second only to the organization of new Clearing Houses is the introduction of the Clearing House Examiner System into the larger cities, bringing together the list of borrowers from all banks in the city. Many dangerous situations were first discovered in this way and the control of the duplicate borrower is possible. In some cities the Examiner's office conducts a complete credit bureau and in practically all, the examiners have fairly effective methods of checking up on the borrowers when requested. In several cities where the examiner plan has not been adopted, credit bureaus have been established and have been the means of preventing a large amount of losses. A system so effective in a city should be of similar value to a group of banks in neighboring towns, say in the same county. We believe that the development of this idea has just begun and that it will mean much in saving bank losses."

## National Bank Division

**E**DGAR L. MATTSON, President of the National Bank Division, in his review of the Division work said:

"The work of stimulating interest in the

correct performance of trust administration and of assisting in various ways in the installation and operation of trust departments by national banks has gone on apace. The trust work being done by members of the Division shows a very satisfactory growth and pleasing results. The Division is engaged constantly in the work of aiding individual banks with their trust departments. Through all of this endeavor an effort is made to impress upon the members the soundness of one of the most wholesome tenets of the Division's creed—that no trust department should be installed unless the bank is determined to equip the department properly and completely to perform every trust that may be offered; misadministration would reflect adversely not only upon the trust department but upon every other department of the bank as well."

## Savings Bank Division

**P**RESIDENT ALVIN P. HOWARD of the Savings Bank Division called attention to the fact that on all matters pertaining to savings banking the Division is equipped to supply information, advice and suggestions, particularly in respect to statistics on savings deposits and depositors throughout the United States, classified by states and for different kinds of institutions handling savings; statistics on school savings throughout the United States and practical and theoretical knowledge necessary to start a school savings system; the theory and practice of the pay roll deduction plan for industrial savings; economic factors in savings; and latest sentiment on novelties, personal solicitation, employees' contests, window display, house organs, savings clubs, budgets, etc. Mr. Howard's report told of the work of the Committee on Bank Facilities and Service; the Committee on Savings; the Federal Legislative Committee; the State Legislative Committee; the Committee on Real Estate Mortgages and the Committee on Investments.

## 12,194 Members of State Bank Division

**P**RESIDENT W. C. GORDON of the State Bank Division stated that the State Bank membership has reached the new high mark of 12,194 members. The Division, he said, had centered chiefly on encouraging the development of cooperative farm marketing facilities along sound economic lines; developing a better understanding and relationship between state banks and the Federal Reserve System; coordinating the efforts being made to increase the efficiency of state bank supervision, and cooperating with other agencies in a nationwide campaign to educate the public in the elements of sound investment.

"In the field of state bank supervision and regulation," Mr. Gordon continued, "it has been observed for years that state bank-



ing laws were increasing both in number and diversity, at an alarming rate. The officers of the Division have given a great deal of study to the problem of developing in the several states more uniformly efficient state bank supervision. A survey was made to bring out the high lights of successful supervision and indicate remedial weaknesses for formulating a model code of law governing state bank supervision. The recommendations developed were to provide adequate salaries in bank supervision departments; give to bank commissioners large discretionary power in granting charters and enforcing bank regulations; remove the office from partisan politics by providing for election or nomination of the State Bank Commissioner by the bankers' associations; provide for a sufficient number of examiners, with adequate pay, and free their appointment from politics; give the banking department full authority to act as receiver in the cases of failed banks; make bank commissioners' terms five years; make requirements for Bank Commissioner eligibility not less than five years of successful banking experience and well recognized executive ability."

### American Institute of Banking

THE report of the American Institute of Banking, presented by President E. V. Krick, brought out that the Institute now is represented by 170 chapters, divided as follows: City Chapters 141, County Chapters 25, State Chapters 3, and Correspondence Chapter 1. Growth is shown by the fact that last July there were 160 chapters. The membership in the Institute on March 15 was 56,142, a gain of 1,982 since July.

"At present we have members in every state in the Union," Mr. Krick said. "The Institute has devised a plan for carrying banking education to the country banker, known as the study group plan. Under this, groups from the personnel of the country banks, of not less than ten or more than thirty, can form themselves into a study group, select their instructor, upon the approval of the Institute, and obtain the same type of educational advantages that is available to the city or county chapter member. To date fifteen study groups have been organized.

"Although it is yet a little early to make a prediction, we believe that this year will show at least 5000 more students enrolled for the study courses than during any previous year. Another major responsibility is that of keeping the student interested and keeping up his attendance at the classes. Reports indicate in many chapters most satisfactory results in improving the class attendance, the average attendance ranging from 80 to 90 per cent of the original enrollment."

### State Secretaries Interested in Crime Wave

W. F. AUGUSTINE in presenting the report of the State Secretaries' Section, said in part:

"The section is interested in developing measures to suppress to some degree the wave of bank robbery sweeping over the Middle West. The number of robberies is

alarming. Holdup insurance rates in several states have jumped to ten dollars per thousand and insurance protection may be withdrawn from certain sections if the loss ratio increases. Iowa has been very successful in the operation of the Vigilante's Committee Plan. Kansas, Oklahoma and Illinois are now installing this system. About 3000 men are being placed under arms in each state. In states where this crime is not so pronounced, a carefully worked out system of cooperation with the American Bankers Association detectives and the established peace officers is recommended."

### Trust Company Division

LUCIUS TETER, President of the Trust Company Division, in his report said:

"For the good of all, we are vitally interested in seeing the gift tax abolished and a removal of the tax on the donor of a revocable trust. We believe that the publication of tax returns made by individuals serves no worthy purpose. We have been greatly concerned over the multiplicity of inheritance taxes by the states and the Federal government. The Executive Committee of the Division approved the recommendation of the Special Committee on Taxation that for state inheritance taxes the reciprocal plan or the Matthews Plan with certain modifications be placed in operation as far as possible. The plan to have the Federal government retire from the field of inheritance or death taxes was also approved. Our Executive Committee unanimously voted that we recommend to this council the securing for all state chartered banks and trust companies that are members of the Federal Reserve System, the same rights as are enjoyed by national banks in respect to becoming depositories of government funds.

"Our work of cooperating with the bar has revealed very clearly during the recent months that many lawyers object primarily to the business of trust companies and corporate fiduciaries generally. Several bills designed to restrict trust company operations and forbid the advertising of trust business were introduced in state legislatures. The attitude of the Division is to oppose such legislation."

### Agricultural Commission Well Organized

BURTON M. SMITH, Chairman of the Agricultural Commission, reported that the forty-eighth state bankers' association had appointed an agricultural committee so that the organization of this work is now 100 per cent complete.

"The machinery is now available for reaching every county in the United States," he said. "The commission is able to carry suggestions and experiences from one state conference to another and lend what assistance it can in formulating constructive programs. Since October conferences have been held in 36 states. Not only is there a committee in every state, but these committees have definite programs of work. In most states the programs have been published and sent to every bank."

In the absence of Fred I. Kent, Chairman,

the report of the Commerce and Marine Commission was presented by Robert Maddox.

### Special Committee to Study Federal Reserve System

IN his report as Chairman of the Economic Policy Commission, Evans Woollen said: "The commission has continued to busy itself primarily with problems pertaining to the Federal Reserve System. The commission believes that as the time draws nearer when the charters of the Federal Reserve Banks must be renewed, there will be increased agitation to amend the Federal Reserve Act in various ways. In order to be fully prepared to meet any contingencies which may arise, the commission has voted to appoint a sub-committee from out of its own membership to study all phases of the Federal Reserve System and the amendments proposed to alter the Act under which the system is now functioning."

This sub-committee is composed of Evans Woollen of Indianapolis, Chairman; Nathan Adams, Dallas, Tex.; Leonard P. Ayres, Cleveland, Ohio; Craig B. Hazlewood, Chicago, Ill.; R. S. Hecht, New Orleans, La.; Walter Lichtenstein, Chicago, and Paul M. Warburg, New York.

Mr. Woollen further said that the committee will welcome suggestions of any kind to facilitate its work and to give its investigation as comprehensive a character as possible and that such suggestions should be addressed to Walter Lichtenstein, the Secretary of the Economic Policy Commission, care of the First National Bank of Chicago.

The report of the Committee on Federal Legislation, presented by Max B. Nahm, Chairman, is printed elsewhere in this issue.

### Non-Cash Items

J. W. BARTON, Chairman of the Committee on Non-Cash Items, reported, "After the Annual Convention of the Association in Chicago, when a resolution was adopted approving the action of the Executive Council opposing collection of non-cash items by the Federal Reserve Banks, our committee appeared before the Federal Reserve Board in Washington, filing with the Board a brief representing the position of the American Bankers Association in opposing the handling of these items by the Federal Reserve Banks. Our committee was given a very courteous hearing by the Board and we were assured that the subject would be given careful consideration. Later on we were informed by the Board, which has as yet made no ruling on their position in this matter, that at a recent conference of the governors of the banks a majority of the governors seemed to favor a continuance of this practice. The Federal Reserve Board requested that the governors of the several Reserve Banks should submit a brief in answer to the brief filed by your committee on Non-Cash Items and we were assured that when this brief shall be submitted by the governors, your committee will be given an opportunity to present another brief in rebuttal. In view of the great interest in this important subject and

its effect upon so large a number of member banks in the Federal Reserve System, and so large a number of member banks in this Association, we respectfully request that this report be received and that the Committee on Non-Cash Items be continued." The committee was continued.

### Legislation in the States

THE report of the Committee on State Legislation, presented by W. D. Longyear, Chairman, said in part:

"Concerning particular measures recommended by our Association, the Uniform Fiduciaries Act has been passed this year in Utah and Idaho; our measure giving a bank the option to refuse payment of a stale check has been passed in Kansas, Idaho and New Mexico; Idaho, Kansas and New Mexico have also passed the recommended measure relative to notice of adverse claim to a bank deposit; New Mexico has also passed one bill covering payment of deposits in two names; this bill, previously adopted in Idaho, has been modified this year to refer specifically to husband and wife and excepts deposits attached in judicial proceedings; our forged and raised check statute, previously adopted in Idaho, was amended in 1925 to reduce time limit from six months to ninety days; our Saturday afternoon bank transactions law has been passed this year in Idaho, but modified to include legal holidays as well as Saturday afternoons; our bill for the filing of Federal tax liens was passed in modified form in Idaho; and our bill authorizing the sending of items direct to the payor has been passed by the Nebraska Legislature."

The report of the Committee on State Taxation, by Thornton Cooke, is printed elsewhere in the JOURNAL.

### Standard Policies

CHAIRMAN W. F. KEYSER, in reporting for the Insurance Committee, announced that the new American Bankers Association Standard Form Bank Burglary and Robbery Policy has been completed and copyrighted, and that insurance companies were being licensed to write this 1925 form. The terms of the revised policy, the report said, are "clear, definite and comprehensive and will prove to be of distinct benefit to the banks of the country." It was also announced that the committee is investigating the practicability of preparing a form of bankers blanket bond worthy of being copyrighted by the Association. On this subject the report said:

"The so-called Blanket Bond is a comparatively new form of insurance and is still in the experimental stage. Consequently, scarcely less than a dozen different forms of blanket bonds are now being issued by American companies, the rate on each form being governed by the extent of the coverage. The existence of so many forms is likely to give rise to confusion and misunderstanding, and it is therefore the opinion of the committee that if a standard primary form can be satisfactorily worked out, it will be of great benefit to the Association's membership. Several forms of blanket bond granting various degrees of coverage have been approved by previous

insurance committees, but none of these forms was prepared under the direction of the Insurance Committee of the American Bankers Association and none has been copyrighted by the Association."

H. Y. Lemon, Chairman of the Membership Committee, reported that since the beginning of the Association year the committee had secured 464 new and regained members. He pointed out that during the year there had been 692 bank failures and consolidations among the membership which accounted for some shrinkage in the total enrollment, but expressed the opinion that this would be more than made up in the last half of the year, during which, experience shows, memberships are obtained in larger numbers than during the first half.

### Public Relations of the Association

FRANCIS H. Sisson, as Chairman of the Public Relations Commission, presented the reports of the Publicity Department and of the JOURNAL. In regard to publicity he said in part:

"We are distributing material aimed to educate the people in making greater and more intelligent use of banking facilities, to direct their attention to sounder investments through availing themselves of bank advice, and to instruct them in ways of avoiding loss from criminal operations involving bank transactions. In general, our aim is to improve in all possible ways the contacts between the banks and the public. The field is unlimited for service to banking and the public along these lines.

"Whenever the Association does anything of public interest or whenever any of its officers speak on questions of general concern, we are assured of an extensive showing in the press throughout the nation. A really remarkable wave of editorial comment, uniformly favorable in tone toward the Association and toward banking, usually follows our issuance of news items containing informative matter or constructive comment on public problems.

"It is apparent from the amount of publicity JOURNAL articles are getting in newspapers that the quality of articles we are printing makes a very positive appeal to newspaper editors who in turn pass this information on to their own readers. I regard the newspapers of the country to be a very fair jury on news values. Of the quality of material published in the JOURNAL, always our test is whether or not any proposed article is useful to banking or useful to any considerable number of bankers. We try to avoid sending mere reading matter to you or printing matter merely to please an individual. It is the maintenance of this policy which we believe will add to the prestige of the Association and add to the value of the JOURNAL to banking."

### Public Education

IN the absence of John H. Puelicher, the Chairman, R. S. Hecht presented the report of the Public Education Commission. Thirty-eight states have committees on public education engaged in promoting lectures on banking by bankers in the schools.

"Last year," he said, "we were able to re-

port that over 18,000 talks had been given to 2,225,000 people. This year it seems certain these figures will be surpassed. The Civic Club Talks prepared by the Commission have been widely distributed and widely used. Every Rotary, Lions and Kiwanis Club in the country received copies of the two business men's talks, and numerous speakers for such clubs have been provided. The educational director of the Commission has himself addressed forty clubs with a combined audience of over 5000. In addition to the work in schools and civic organizations, a vast number of people have heard talks on banking over the radio."

In presenting his report as Advisor, Executive Committee, Banking and Currency Department of the National Association of Credit Men, C. Howard Marfield told of the committee's activity relative to the payment plan, pointing out that not so much attention to this subject was called for as previously, due to the dying down of agitation over it.

"The National Association of Credit Men," he said, "continues to maintain a consistent attitude of indorsement and loyalty toward the Federal Reserve System. It is constantly endeavoring to show non-member banks throughout the country how much better it would be for them to ally themselves with the System than to operate on the outside. Naturally the Credit Men's activity in this regard is directed more toward the mercantile than the financial classes. In 1921 and later there developed a great deal of antagonistic feeling among business men with respect to the System, but this feeling, largely because of the efforts of the Credit Men, has measurably lessened, due to educating the smaller business men throughout the country with respect to the workings of the System.

"Although there has been decided elimination from the minds of business men of the impression that the raising of the rediscount rates following the 1920-21 period was one of the direct causes of the decline in commodity values, this impression still lingers in the minds of some Congressmen, particularly from the South. This has to be taken into account, and it is a matter for congratulation that the Credit Men's Association is stressing that inasmuch as the System now has rounded out its tenth year and has only ten more years to run under its charter, the business men of the country should demand that the charter be continued. Certainly now is the time to make it clear that the charter must be renewed."

### Protection of Banks

THERE was a decrease in the number of bank crimes reported for investigation during the first half of the current fiscal year, said James E. Baum in the report of the Protective Committee:

"This improvement is doubly pleasing in that it is directly due to a marked reduction of 238 cases, or 45 per cent, in fraudulent check operations, note and mortgage swindles, or 'paper-hanging,' the prevention of which is within the control of the bank. More than 90 per cent of bank losses through check operations is handed to strangers by a few hundred of the 30,000

banks in this country. A heavy proportion of these losses is spread over all the insured banks in the form of insurance premiums. The situation is unwarranted, unfair and unworthy of sound banking, and the time has come for a halt. Losses suffered through the errors of a credulous minority must be reduced, so that the mistakes of the few will not penalize the vast majority of banks exercising due diligence.

"Bank bandits and burglars maintained the same high record of last year, with a slight increase in the number of burglaries. The only consoling note is found in a reduction in the amount of losses these crimes of violence caused to members, the 1924 loss of \$807,619 dropping to \$695,195, a reduction of about 14 per cent. With less than half the number of banks represented by our members, non-member bank losses in the same period, and from the same source, increased 40 per cent.

"Bankers and business men in the state of Iowa furnish an excellent example of the preventive measures necessary to cope with the criminal of today. Its law enforcement system was found inadequate to meet present conditions. Carefully selected men were sworn in and armed as deputy sheriffs in every county. In 1920 Iowa banks suffered 56 criminal attacks with a loss of \$210,000. With the system of vigilantes in force the criminal element soon found Iowa too unsafe to ply their trade and in the years 1923 and 1924 Iowa banks suffered but three attacks with a loss of only \$2,600. As a result, bank robbery insurance rates in Iowa have dropped to the minimum."

### An Anniversary Endowment

THE Fiftieth Anniversary Committee has decided that an appropriate and an enduring marking of the anniversary would be to establish an educational foundation with a minimum fund of \$50,000, one fifth of which is already pledged.

The proposal was presented by Francis H. Sisson, vice-president of the Guaranty Trust Company, acting for Lewis E. Pier-son, chairman of the Board, Irving Bank-Columbia Trust Co., New York City.

"Twenty-five years ago," the proposal reads, "the Association started the American Institute of Banking on its splendid career of useful education and in recent years the Association has been doing a valuable work in economic research and publicity. At the Fiftieth Anniversary Convention, therefore, your committee recommends a further contribution by the Association to economic understanding through the establishment of a foundation.

"The income from such a foundation, it is suggested, might be devoted primarily to the establishment of undergraduate or graduate scholarships in economics in colleges and universities of the United States and, secondly, whenever income might justify, to the development of economic research. Your committee recognizes that the raising of funds for such a foundation is a vital factor and one with which the Executive Council should necessarily deal. The committee believes, however, that on the Fiftieth Anniversary it should be possible to raise a minimum fund of \$50,000 as a nucleus for

what might grow to much larger proportions, with minimum subscriptions of \$50, and larger subscriptions in multiples thereof, in order that the Fiftieth Anniversary itself be brought out prominently. The details regarding the use and administration of the income and funds of such a foundation would naturally be left to the Board of Trustees designated in a manner to be provided either by the Executive Council or the Convention."

As a starter to the foundation, Mr. Pier-son, the chairman of the committee, and George M. Reynolds, chairman of the Board, Continental and Commercial National Bank of Chicago, had each agreed to subscribe \$5000.

### Wanted to Reopen Branch Banking

OSCAR WELLS, First Vice-President of the Association, read the following telegram from the Mercantile Trust Company of California, by John S. Drum, president; the American Bank of San Francisco, by P. E. Bowles, president; Pacific-Southwest Trust and Savings Bank, by Charles F. Stern, president; Security Trust and Savings Bank, by J. F. Sartori, president:

"In the hearing on the McFadden Bill last January, Judge Paton, counsel for the American Bankers Association, appeared before the Senate Committee, stated that he represented the Association and that the Association was strongly committed to the passage of the McFadden Bill and to the banking policy that is represented in its existing form. Later, when questioned by Senators Pepper and Glass as to his views on the elimination of Section 9 from the bill, Judge Paton said it was the purpose of the Association to 'down Branch Banking,' that 'The general sentiment of the members is against branch banking and to do everything they can to eliminate it,' and that 'It is supported because it is designed in its provision to check branch banking, and the American Bankers Association must stand or fall on that.'

"Section 9, as you know, is that which provides that as a condition to membership in the Federal Reserve System, a state bank must forego the exercise of any right it may have under its state laws and its charter to establish branches; state banks at present members would not be permitted to establish more branches if they wished to remain in the Federal Reserve System, and state banks applying for membership would be required to give up any branches they might have.

"This section constitutes to that extent at least a repeal of the guaranties written into the Federal Reserve Act by Congress in 1917, for the purpose of getting state banks to join the system, which provided that any state bank joining the Federal Reserve System should retain all its state charter rights and the privileges granted by its state banking laws.

"Judge Paton also testified that at the Chicago Convention last September 'Various elements in the Association got together and agreed that if certain amendments were put in the Bill, known as the Hull Amendments, the Association would indorse the bill as thus amended.' This was confirmed during the hearing by Mr. Charles A. Hinsch in an informal conversation with Mr. John S. Drum. Mr. Hinsch stated that in an informal meeting of certain bankers at Chicago—the undersigned are not informed as to whether the men present represented a committee of the Association—the group, all of whom were strongly opposed to branch banking in any form, agreed that they would cause the American Bankers Association to come out actively against the McFadden Bill unless it was made more drastic in its opposition to branch banking, and that as a result of the conference the subject matter of the changes was agreed upon and thereafter at the instance of the American Bankers Association embodied in the McFadden Bill in the form of the Hull Amendments, introduced by Congressman Morton Hull of Illinois.

"Mr. Charles F. Stern, President of the Pacific-Southwest Trust and Savings Bank of California, and a member of one of the committees of the Executive Council, expected to attend the Spring Meeting to sit with that committee and planned to take up this matter in some appropriate way. At the last moment Mr. Stern was prevented from going, owing to the critical illness of his father. By reason of his inability to be present it is necessary to send this telegram to you to present a matter that we should have preferred to place before the Council in another manner. Its purpose is to request you on behalf of the undersigned banks to

take the necessary steps at the present meeting of the Council so that the matter of banking policy involved in the McFadden Bill may be fully and fairly discussed with all parties in interest having an opportunity to express themselves before the American Bankers Association at its meeting in Atlantic City next September, before the Association commits itself to a reaffirmation on the banking policy of this Bill. There is no doubt that at the next session of Congress the McFadden Bill, so called, or some similar bill, will be introduced. There is no doubt that the entire matter will again be fully presented to Congress, both in Committee and before the House and Senate. It, therefore, seems no more than right at this early date to request the Executive Council to make arrangements under which the matter can be fully presented to the membership of the Association at the next Convention before any action is taken. We desire no controversy nor conflict in this matter, but make this request in accordance with the good old American doctrine of fair play that permits every man to have his day in court. It is immaterial to us whether the hearing we request be public or private, whether it is before a standing or a special committee or before the Executive Council or the Association itself, so long as it is a hearing in which all parties in interest can express themselves fully and fairly.

"We understand that one of the principal purposes of the Spring Council meeting is to provide at a time amply in advance for the hearing before the Convention of just such matters as this, and it is for that reason that we now make this request."

Mr. Wells: We have construed this telegram to be a request for one thing, and that there was in the minds of the senders of it that some sort of a plan existed for an action upon the part of the Convention or the Association in some other form for reaffirmation of its former position.

We have no reason to believe that that question of reaffirmation will be raised, but if it is raised, any method employed in bringing up for the consideration of the Association, whether in Convention, or in a representative body such as the Council, will present at the same time an opportunity for the discussion on both sides. It seems to us that if we took an action here making a definite and specific provision for a hearing even before a committee, that such action would be construed as an invitation of reopening a question which has already been discussed as it would seem to us almost to its conclusion. And, unless some new matter could be brought into it because of which the Association might be expected to take a different position than that already taken at the Chicago Convention, that such an action upon the part of the Council would not only be ineffective, but would probably be improper.

We did not feel that we could answer this telegram without telling the Council members exactly what it contained, and giving you the point of view which I have presented, and we ask for some determination. If, in your judgment, the conclusion which Mr. Knox and myself have reached as to how it should be treated is correct—that we should inform these gentlemen that we have no reason to believe that any specific effort will be made toward reaffirmation, but that if it is made it will carry with it an opportunity for resisting the reaffirmation—we will be very glad to have you say so. If some other course in your wisdom should be followed because of this request, then of course we must be governed by your judgment.

Mr. Nahm: I beg leave to state as Chairman of the Federal Legislative Committee, and in justice to Judge Paton, the Secretary of this Committee and General Counsel of this Association, that the Federal Legislative Committee stands charged with a mandate from the Chicago Convention to do what they can to pass the Mc-



Fadden Bill with the Hull Amendments. The Federal Legislative Committee is not a legislative body, but is simply one of your committees charged with a positive mandate from you. It is not within our province to use our thought or our judgment upon this proposition or to change it in any way, shape or form. And I beg leave to state that Judge Paton did just what the rest of us did: simply attempted to carry out your will as expressed in the Chicago Convention, without reference to the private opinion of any member of that body, whether it accorded with or differed from your mandate.

That, I take it, is our province. After you in convention have determined upon a policy, it is simply our business to execute it as best we can without any change whatever, and this, and this only, is what Judge Paton did and what your committee did, and that, I think, should meet with your approval, whatever your personal opinions on the subject might be.

Rome C. Stephenson, vice-president St. Joseph County Savings Bank, South Bend, Ind.: The resolution that was passed at Chicago was passed by the Convention of the Association in general assembly. This body (the Executive Council) is simply the representative body of the membership of the Association, and if there is any desire upon the part of members of the Association to have this matter discussed again, the general Convention of the Association is the place at which to have it discussed. It would be inappropriate for the Council to take this matter up at this time to attempt to reverse the decision made by the Convention in Chicago; and however much members here would like to discuss it, and would like to reverse that decision, it would be impossible for us to do it, and inappropriate for us to attempt it. Therefore, I move that the suggestions that have been made by our friends from California be laid on the table.

The matter was laid on the table.

## Six Pieces of Federal Legislation

SIX matters, important to banking in which the Federal Legislative Committee of the American Bankers Association interested itself, were explained by Max B. Nahm, vice-president of the Citizens National Bank of Bowling Green, Ky., at the Spring Meeting in his report as Chairman of the Federal Legislative Committee.

The first of these was the McFadden bill, the history of which has been fully given by the JOURNAL.

"The Federal Arbitration Act, designed to legalize the settlement of disputes by arbitration was passed at the last session of the 68th Congress, and has been approved by the President. Our Association," the report continues, "is on record as favoring this legislation and was represented by its Counsel at a hearing before the House Judiciary Committee, which favorably reported the bill.

"During the 68th Congress efforts were made to amend the Postal Savings law so as to increase the rate of interest paid on Postal Savings deposits from 2 to 3 per cent and place the postal savings banks squarely in competition with the banking business of the country. Our Committee has participated in hearings at Washington on this subject, and we are pleased to report that these proposed amendments did not make any headway in the 68th Congress.

"The last Congress passed the Purnell bill (H. R. 157) to authorize the more complete endowment of agricultural experiment stations. The bill makes a much needed increase in the appropriation for research work. Since 1906 the agricultural colleges, which make it their business to study the farming needs of their respective states, have been receiving from the United States government only \$30,000 annually for each college. The Purnell bill provides for an increase in addition to the amounts now received by the Agricultural Experiment Stations, now established or which may hereafter be established by Congress, of \$20,000 for the fiscal year ending June 30, 1926, in-

creased by \$10,000 for each fiscal year thereafter up to \$60,000 for the fiscal year ending June 30, 1930, and maintains the \$60,000 addition for each fiscal year thereafter to be paid to each state and territory. Our Agricultural Commission has been interested in the promotion of the Purnell bill, and the Committee on Federal Legislation has aided in its passage of the Purnell bill.

"At the last session of the 68th Congress a resolution was introduced by Senator Norris of Nebraska (S. Res. 286), calling for investigation by the Federal Trade Commission of an alleged power trust involving common control of public utility and power companies through stock ownership, interlocking directorates and other combinations. The resolution included a demand for an investigation of the extent to which banks and trust companies and their customers were involved and also requested the President to direct the Secretary of the Treasury to permit the Federal Trade Commission to have access to all official reports and records in the Treasury Department. Our Committee on Federal Legislation urged opposition to this resolution in its original form because of its danger in opening the door to an undue prying into the affairs of banks and their customers. Such power would destroy the confidential relation that has always existed between banker and customer, and violate the privacy that every business man is entitled to. We regard this as fundamental in the banking business and, therefore, invoked the assistance of the great sub-committees with most satisfactory results. The resolution was subsequently passed in a modified form, and this danger was eliminated. The substitute as finally passed directed the Commission to investigate and report the extent to which the General Electric Company or its stockholders or other security holders either directly or through subsidiary companies, stock ownership or other means of instrumentalities, monopolizes or controls the production, generation or transmission of electric energy or power.

## Travelers Cheques

ANNOUNCEMENT was made at the Spring Meeting of the Executive Council of an amendment to the contract with the Bankers Trust Company relative to the issuance of American Bankers Association Travelers Cheques. For some years the Bankers Trust Company, which operates this part of the Association's activities, charged a commission of three-quarters of 1 per cent. About a year ago the commission was voluntarily reduced to one-half of 1 per cent. The experience of a year or more shows the lower rate to be inequitable because of the losses resulting from the crime wave. The rate has, therefore, been restored to three-quarters of 1 per cent. One-half of 1 per cent will be retained by the selling bank, and one-quarter of 1 per cent will be turned into the Bankers Trust Company for the purpose of setting up a fund for the ultimate redemption of forged and lost cheques.

"Congress at its recent session amended the law relative to the oath of directors of national banks (Rev. Stat. Sec. 5147, amended February 20, 1925, Pub. No. 430). The amendment defines the officer before whom the oath shall be taken, namely, a notary or other officer duly authorized by the state to administer oaths, except that it cannot be taken before a notary or other officer who is an officer of the director's bank. The amendment also prescribes a period of ten years during which the oath shall be filed and preserved in the Comptroller's office."

## Succeeds Jardine in Advisory Council

ACTING PRESIDENT F. D. FARRELL of the Kansas State Agricultural College has been appointed to the Advisory Council of the Agricultural Commission, American Bankers Association, by President William E. Knox, to succeed W. M. Jardine, who resigned following his appointment by President Coolidge as Secretary of Agriculture. President Farrell, who has also temporarily succeeded Secretary Jardine as head of the Kansas Agricultural College, where he became dean of agriculture in 1918, has been active in the agricultural work of both state and national bankers' associations.

The Agricultural Commission of the American Bankers Association, to whose advisory council President Farrell has accepted appointment, consists of twelve bankers, one for each Federal Reserve District. It was formed for the purpose of bringing bankers, farmers and the authorities of the state agricultural colleges into closer relationship for mutual understanding and assistance. The advisory council of the commission, in addition to the newly added member, consists of H. L. Russell, dean of the College of Agriculture, University of Wisconsin, and W. R. Dodson, dean of the College of Agriculture, Louisiana State University.

## Resolutions of the Executive Council

**T**HE Executive Council of the American Bankers Association at its Spring Meeting makes note of the fact that while business prosperity has not reached the heights which it was expected in some quarters it would, nevertheless, the business situation of the country need cause no anxiety. It is fundamentally sound. The conservatism displayed by business men throughout the country has brought about an attitude toward future commitments which has removed the menace of inflation. The Council believes that, insofar as our business prosperity has been the result of a revival of agriculture caused by undue diminution of crops in other countries of the world, the effect is likely to be temporary, but insofar as it has been due to the rehabilitation of Europe and the liquidation of old indebtedness on the part of our agricultural population, the results attained are likely to be permanent.

**T**HE direction of general banking policy has been eminently successful in contributing to the maintenance of a sound credit situation. Notwithstanding the accumulation of a disproportionate share of the world's gold in this country, the inflation of credit and prices which many feared would result has not appeared. The average of commodity prices has fluctuated within a narrow range during the last three years. The maintenance of a high degree of stability in the price level requires the support of sound banking policy.

**T**HE Council commends the continued efforts of President Coolidge and Secretary of the Treasury Mellon to eliminate unnecessary governmental expenditures. It indorses the efforts of the present national administration to reduce still further the

tax burden resting upon our people. The reduction of Federal taxes begun last year should be continued by such a revision as would not only further lighten the aggregate burden of these taxes but distribute them more equitably. The surtaxes on incomes should be lowered, thereby making them more productive of revenue and encouraging the investment of capital in business undertakings. State and local taxes are also in many cases unduly high, and there is room for helpful coordination of these taxes by removing unnecessary and irritating duplications. A wise fiscal policy, however, will include provision for continuing the gradual retirement of the huge national debt incurred during the war. It is to be hoped that the efforts being made will meet with an early and complete success.

**T**HE Council notes with satisfaction the continued improvement of European conditions, both from an economic as well as political standpoint. It is glad to see that the world is gradually returning to normal conditions everywhere and that the bitter feelings engendered by the war are slowly but surely disappearing. There is ground for believing that readjustments may be made which will cause the nations vanquished in the late war to accept whole-heartedly a permanent settlement. This will be a great step in advance, assuring peace in the world.

**T**HE continued discriminating investment of American capital abroad should be encouraged. It offers a most helpful means of gradually adjusting the national economy to the requirements of a creditor country. Without its influence the processes of collecting the foreign debts would unduly hinder the expansion of our export trade. The productive equipment of the country has

developed under the stimulus of a large export business, and the loss of foreign markets would unavoidably result in idle plants and workers.

**T**HE extensive betterment of the general position of the farmers without resort to artificial price-making or valorization of their commodities has demonstrated the effectiveness of other and sounder measures. Cooperation is proving helpful in many directions, and systematic effort to give increased attention to the familiar problems of business management can do more than governmental price-making to promote the prosperity of the farmers.

**T**HE Executive Council is happy to note year after year that the administration of the Association continues to be ably conducted, and it wishes to congratulate President William E. Knox upon his untiring efforts to facilitate the harmonious development of the Association, especially in regard to the relations between the permanent staff and the temporary officers of the Association. The fact that President Knox is located in the same building with the headquarters of the Association has enabled him to devote time and energy to the work of the Association that would have been impossible under other circumstances.

**T**HE Council is a second time under deep obligations to the bankers and ladies of Augusta for the cordial hospitality shown and to the management of the Bon Air-Vanderbilt for its efforts in assuring the comfort of the members and those accompanying them.—F. H. Sisson, Chairman; Walter Lichtenstein, Secretary; Evans Woollen, W. C. Wilkinson, Thomas F. Wallace, Grant McPherrin.

## Banker Interest in the South's Great Memorial

**T**HE aid of the American bankers will be sought in the distribution of the newly minted Stone Mountain Memorial half-dollars at a premium to provide the largest part of a fund to build "the most enduring monument ever erected," Thomas R. Preston, former President of the National Bank Division, stated at the "family dinner" of the Executive Council at the Spring Meeting. Mr. Preston said that scientists had estimated it would take 100,000 years for the elements to wear away a single inch of the granite out of which the memorial is to be carved four feet deep. While the monument will commemorate the valor of the southern soldiers in the Civil War, he said that all sections of the United States will be invited to join in making it in a sense a national monument to preserve for all times memories of such devotion to duty and lofty ideals as are typified by General Robert E. Lee.

"Eighteen miles from the city of Atlanta, in the heart of Georgia, at the very end of the Blue Ridge range of mountains,

is one of the most unusual formations in the world," Mr. Preston stated. "It is called Stone Mountain. It is a monolith, uncracked and perfect, with an area equal to 565 acres of exposed granite, containing above ground nearly eight billion cubic feet. No one has ever computed the billions of cubic feet which may be unexposed. It is a lone sentinel, no other mountain or elevation near. The northern face is 5000 feet wide and 700 feet high. No one can look upon it without being awed by its grandeur.

"Mrs. C. Helen Plane, now ninety-five years of age, first suggested that it be utilized as a memorial commemorating the valor of the southern armies during the dark days of the '60s. It is now destined to become the world's greatest memorial. People will come from the four corners of the earth to view its majestic proportions.

### Thirteen Governors Aid

**"T**HE governors of thirteen states and many patriotic citizens, not only in the South but throughout the United States,

have formed an association to carry out this wonderful conception. Sculptors and artists from all over the world have seen and praised its magnificent possibilities.

"The Stone Mountain Memorial has three gigantic features. First is the Panorama in full relief, sweeping downward from right to left, a distance of 1400 feet, across the face of the mountain. Second, the Memorial Hall, which is to be excavated from the side of the mountain directly beneath the central group in the Panorama. Third, the Amphitheatre, which is to be built against the mountain, with stone quarried out of Memorial Hall.

"The Panorama will contain 700 colossal figures representing the Confederate armies mobilized about their great leader, Robert E. Lee, and advancing swiftly into battle. In the Panorama will be sixty-five recognizable likenesses of confederate generals. Never before has such an array of military leaders been assembled in one gigantic scheme. In the central group, occupying one and one-half acres, the outstanding fig-

ure will, of course, be General Lee, seated upon his famous war horse, Traveler. The hat and head of General Lee will occupy a space thirty-three feet square. From the tip of his horse's ears to its nostrils is thirty feet. It is 200 feet from Lee's hat to his horse's hoofs—about the height of a seventeen story building. No other equestrian statue has ever been preserved which is equal to it, not even the one of Marcus Aurelius.

### A Vast Relic Storehouse

**"M**EMORIAL Hall, chiseled out of the granite beneath the Panorama, will be 300 feet long, forty feet high and sixty feet deep. In this wonderful stone vault will be stored the records and relics of the Confederacy. To the right of Memorial Hall space will be cut in the mountain wall for the largest pipe organ ever constructed.

"Stone taken from Memorial Hall will be used in building a great amphitheatre, which, it is hoped, will accommodate as many as the Roman Coliseum, which had a seating capacity of over 80,000 persons. It is estimated that it will require three years more to complete the central group and eight years additional to finish the entire memorial. The estimated cost is over four million dollars.

"Congress recently authorized the minting of five million Stone Mountain Memorial coins in the denomination of fifty cents.

### Family Dinner

**A**S is the custom, the conclusion of the Council's sessions were marked by the family dinner over which President Knox presided as toastmaster, and to the success of which his genial humor was a distinctive contribution. The speaker of the occasion was Merle Thorpe, editor of *The Nation's Business*, who discussed the prevailing tendency to enact our fads, fancies, likes and dislikes into laws. Thomas R. Preston, president, Hamilton National Bank, Chattanooga, Tenn., presented an impressive word picture of the great Southern commemorative project, Stone Mountain, and part of his discourse is given elsewhere in this JOURNAL.

A feature of the dinner was the distribution by Harry J. Haas, vice-president of the First National Bank, Philadelphia, Pa., Chairman of the Golf Committee and by Nathan Adams, president, American Exchange National Bank, Dallas, Tex., of the golf prizes.

The ladies in attendance were hospitably entertained by a committee of Augusta ladies. Outstanding among the entertainment features at the Spring Meeting was that furnished on Monday evening by Katherine Tift-Jones in "The Old South in Story and Legend" and by Jean Johnson, soprano.

### The Golf Tournament at Augusta

**T**HE results of the golf tournament held in connection with the Spring Meeting at Augusta are as follows:

The face of the coin bears the inscription, "To the Valor of the Soldiers of the South." Never before has Congress authorized the minting of special coins in such magnitude as this. The measure was introduced in the Senate by Senator Smoot of Utah and in the House by Representative McFadden of Pennsylvania. It passed practically without opposition and met the cordial approval of the President.

### Banks to Aid

**"B**ANKS throughout the country will be asked by the committee in charge to aid in disposing of these coins at a premium. In this way the largest part of the fund is to be raised. The proposition is already national in its scope. The committee regards this as an opportunity to obliterate forever all sectional feeling and to demonstrate anew, if such is necessary, that there is now no sectional hatred. Into that wonderful memorial there will not be carved a single prejudice or ignoble thought."

How much the waging of the Civil War set back the economic progress of the South was emphasized by Mr. Preston, when he recited that it was the most costly war fought up to the year 1914, surpassing in expense the twenty-one years of the Napoleonic wars. Indeed, he reminded the bankers that it required 44 years for the South to regain the per capita wealth she had in 1860.

Lowest Gross Score—81—Won by W. A. Philpott, Secretary, Texas Bankers Association.

Second Lowest Gross Score—86—Tie, A. G. Myers, president, Citizens National Bank, Gastonia, N. C.; Gerald Curran, Bankers Trust Co., New York. Mr. Myers won in the draw.

Third Lowest Gross Score—88—Won by John W. Barton, vice-president, Metropolitan Bank, Minneapolis, Minn.

Lowest Net Score, Four Tied: Gerald Curran, Bankers Trust Co., New York, gross 86, handicap 15, net 71; Hugh H. Saxon, vice-president, Georgia R. R. Bank, Augusta, Ga., gross 95, handicap 24, net 71; E. N. Van Horne, vice-president, American National Bank, St. Joseph, Mo., gross 89, handicap 18, net 71; W. A. Philpott, Secretary, Texas Bankers Association, gross 81, handicap 10, net 71.

In the draw Mr. Curran won first prize, Mr. Saxon second, and Mr. Van Horne third. Mr. Philpott was eliminated from the draw as he won the lowest gross score.

Blind Bogey Prize—85—Tie between P. B. Doty, president, First National Bank, Beaumont, Tex., gross 97, handicap 12, net 85; Ernest Stauffen, gross 105, handicap 20, net 85; Frank L. Hilton, vice-president, Bank of Manhattan, New York, gross 115, handicap 30, net 85; George L. Woodward, gross 100, handicap 15, net 85. Mr. Doty won in the draw.

Highest Score Prize—William E. Knox, President, American Bankers Association.

### Ladies' Tournament

Lowest Score—Mrs. M. E. Holderness of St. Louis.

### The South's Comeback

**R**EFERRING to the South as the "undeveloped section of this country," Mr. Preston said:

"Since 1873 the deposits in banks have increased twenty-fold in the United States; in the South the increase has been forty-fold. The individual deposits in the South in 1876 were \$160,000,000; they are now more than \$6,000,000,000. In 1890 the South manufactured 500,000 bales of cotton, against practically 2,000,000 bales in the balance of the country. She now manufactures 5,000,000 bales. The value of our cotton crop is now \$1,500,000,000—more than twice what it was fifteen years ago. Over \$1,000,000,000 is invested in the South in the textile industry, against \$800,000,000 in the entire United States twenty years ago. Endless other examples of our growth and development could also be given."

While Mr. Preston said that, while the South could complete the memorial without the aid of other sections, it was hoped that the whole country might join in signaling the end of all sectional feeling by erecting this monument to the valorous leader of the Confederacy, of whom Theodore Roosevelt said: "Robert E. Lee will rank, without exception, as the greatest of all the great military captains the English-speaking race has ever brought forth."

Plans are now being perfected for the distribution of the Stone Mountain Memorial coins which are to be sold at a premium to the general public.

Second Lowest Score—Mrs. David Laird, Jr., Camden, N. J.

Third Lowest Score—Mrs. A. C. Andrews, New York.

Putting Contest—First Prize—Won by Mrs. R. E. Harding, Fort Worth, Tex.; Second Prize won by Mrs. Harry J. Haas, Philadelphia.

Mixed Foursome—two balls, selected drive, won by Mr. and Mrs. H. J. Haas, Philadelphia.

### Seattle Trust Company Conference

**L**UCIUS TETER, president, Chicago Trust Company, and President of the Trust Company Division, American Bankers Association, has announced that a regional conference of the trust companies of the United States will be held at Seattle, Wash., Aug. 4 and 5. Francis H. Sisson, vice-president, Guaranty Trust Company, New York, will preside at the sessions. Eleven states will be represented, as follows: Colorado, Utah, New Mexico, Arizona, California, Nevada, Oregon, Montana, Wyoming, Idaho and Washington. The program will consist of discussions of fiduciary problems.

President Coolidge's personal economy campaign has caused a counteraction among the merchants of Washington, D. C., who believe that hard times come when people are hoarding money, and not when they are spending it.



# Relief for the Country Bank

By L. T. MCFADDEN

Chairman, House of Representatives Committee on Banking and Currency

## Congress Will Be Asked to Permit Country Banks to Carry Part of Legal Reserve Requirements in Their Own Vaults. Repeal of War-time Amendments to Reserve Act Would Abolish Right to Issue Notes Against Gold. Currency Saturation.

**I**N my judgment, the time has come to demobilize the Federal Reserve Banks by repealing certain war-time amendments that clothed them with extraordinary powers to control credits. There should be a return to the old order so that Reserve notes may be issued only against commercial paper in response to trade needs, for, under the present system, the Reserve Banks may issue notes against gold, thereby introducing a rigid element in our currency system and, at the same time, acquiring the means for extending excess credits that American business does not need. It would seem wise to give the Federal Reserve Banks the custody of only a part of the reserves of the 9500 member banks rather than the whole of these reserves so that the judgment of individual bank managers may be exercised to a greater extent in determining how great a volume of credit shall be extended.

It is my intention to ask Congress, at the next session, to repeal the war-time amendments that have made it possible for the Reserve Banks to use the gold that is intrusted to them as the reserves of member banks to pyramid credit. Indeed, there is a substantial basis today for charging that the Federal Reserve Banks have saturated currency to the extent of one billion dollars and have contributed to the glut of easy money and the resultant speculative movements.

### War-Time Amendments

**D**URING the war Congress amended the Federal Reserve Act to empower the Reserve Banks to issue Federal Reserve notes against gold as well as against commercial paper. The stated object of this was to draw within their vaults gold that was then scattered in the vaults of the nation's banks so that, by this concentrated control, the Federal Reserve Banks would be in a position, first, to permit an expansion of credit to meet the needs of government financing, later to check any inflation in the domestic credit situation and then, when the golden flood turned back and the other nations started to make drafts on our excessively large gold supply, to make the shock to our business structure growing out of the losses, imperceptible.

It was advanced that, by changing the reserve requirements of member banks in such a way as to require them to carry their whole reserve balances with the Federal Reserve Banks and leaving to their own discretion the amount of cash that they would keep on hand in their banks to meet counter

demands, Federal Reserve notes could be substituted for gold certificates and thus the gold in the vaults of the banks and in the hands of the public, amounting to about two billion dollars could be quickly concentrated.

The amendments, proposed by the Federal Reserve Board, became law and are still operative.

This step was doubtless justified as a war measure but the events of the past year show that the Federal Reserve Banks are using this gold, intrusted to them as reserve, as a means of pyramiding credit rather than regulating it. Federal Reserve notes are kept in circulation when trade requirements no longer have a real need for the credit they represent. It seems to me that we should go back to the original plan of operation where the Reserve Banks were directed to supply only that credit which the private banking system could not supply, rather than to have them in the position of engaging in competition with the private banks. It should be remembered that the System was designed as a "reserve" banking system, to give American trade and commerce the credit for which there was "legitimate" need and to afford an "elastic" currency, which

expanded or contracted to meet the changing needs for credit.

Member banks are now required to keep their entire reserves in the custody of the Federal Reserve Banks, for which they are thus in fact trustees. Therefore, the banks should conduct their operations so that these reserves are kept intact so they may be readily available in time of an emergency. With the increase in the time and demand deposits of banks, these reserves have grown until they are now above two billion dollars.

### The Two Billion Reserves

**B**UT what are the Federal Reserve Banks doing with this money? Of the two billion dollars they have used more than one billion dollars to make loans back to member banks in the form of rediscounts and to engage in open market operations by buying government securities, commercial paper and acceptances.

Under the present law, by virtue of the war-time amendments, a Federal Reserve Bank can with one million dollars in gold combined with commercial paper, acquired in the open market, issue  $2\frac{1}{2}$  millions in Federal Reserve notes. And so long as the Reserve Banks are empowered to acquire gold by the issuance of Federal Reserve notes—for the public would just as soon have a Federal Reserve note as a gold certificate—there is theoretically at least the power to get a much larger part of the nation's entire stock of gold. This now amounts to nearly  $4\frac{1}{2}$  billion dollars. Imagine what would happen if the Federal Reserve Banks issued  $2\frac{1}{2}$  times the greater part of this gold in the form of reserve notes! Cheap money would become even cheaper.

These are possibilities rather than actualities. But, dealing with facts alone, we find that although the gold holdings of the Federal Reserve Banks of every description on April 1, 1925, were \$2,845,934,000 and the total deposits \$2,186,978,000, the total of Federal Reserve notes in circulation was \$1,709,670,000—or more than a billion dollars in excess of the free gold. It may well be asked to what extent this billion dollars in notes have contributed to the ease in our money market and cut down the earnings of banks.

### An Inelastic Currency

**T**HEN, too, there is the question of elasticity in our currency.

Congress, in passing the Federal Reserve Act, sought to create an elastic currency—one that expanded or contracted according

## Legal Reserves

*DESIROUS of presenting both sides of every question, the JOURNAL this month is able to give the personal views of Hon. L. T. McFadden, chairman of the House of Representatives Committee on Currency and Banking, on certain features of the Federal Reserve Act.*

*Mr. McFadden's opinion on the propriety of repealing some of the war-time provisions of the Act are of special interest to country bankers and of first importance to banking everywhere because of the important position he occupies in Congress.*

*As a probable forecast of one possible trend of banking legislation in the next Congress they cannot fail to command the closest attention of the banking world.*

to the needs of business. It provided that notes could be issued only against commercial paper that had the element of liquidity. However, under the present laws, a Federal Reserve note may represent \$100 in gold so that such a note may be nothing more than a warehouse receipt for so much gold. It might have no relation whatever to a commercial transaction. Thus, instead of introducing an elastic element into the currency, this amendment added the possibilities of a rigid, fixed part.

So long as notes can be issued against gold, there is no way in which it can be told just what the credit demand is because the returns do not show how many notes are issued on the security of commercial paper and how many against gold. Such confusion in our currency system should not exist.

Under present conditions, the Federal Reserve Banks are empowered to engage in open market operations and, in this way, may acquire commercial paper to combine with the gold and put out still more Federal Reserve notes. Hence as the earning assets of the Federal Reserve Banks expand, the volume of reserve notes outstanding enlarges.

### ***Its Vast Powers***

WHEN one considers the powers that are invested in the Federal Reserve Banks that may be used to send prices up or down, it is questionable whether such a vast amount of potential power should be lodged in any group of men.

In the first place they have the power of rediscount rates. By lowering the rediscount rates they can create cheaper money and tend to bring about an expansion of business by making credit easily available at a low rate. By raising them they can effectively put the brakes on business by increasing the cost of credit.

By their open market operations the Federal Reserve Banks can bring about a condition that will cause the banks either to rediscount with them or reduce the volume of borrowings. They can go into the open market and buy Federal securities, absorb the liquid funds and send the prices up. Or they can throw securities into the market and depress prices by these manipulations.

The Federal Reserve Board directly had control over total gold reserves of \$2,845,934,000 on April 1, 1925. The Reserve Banks can take this gold that represents the reserves of member banks and use it as the basis of issuing money in the form of reserve notes. For every dollar of gold held, it is theoretically possible to issue 2½ dollars in currency.

The Secretary of the Treasury is chairman ex officio of the Federal Reserve Board. The government has a short-term floating debt of about two billion dollars that it has to refund from time to time. The Secretary decides the interest rates to be paid on these offerings and the amount of Federal securities that are periodically offered to the investing public through the banks. The Treasury itself buys in hundreds of millions in dollars worth of Federal securities annually in connection with the operation of its sinking fund and other investment funds that it manages for government enterprises.

The Federal Reserve Banks can, by investing in temporary Treasury certificates of indebtedness, absorb the entire amount of liquid funds in the Federal Reserve Banks and, in this way, bring about tight money. By selling a volume of securities they can make money easy. The banks' operations, in conjunction with the operations of the Treasury, bring more than six billion dollars which can be used in control of interest rates within the Reserve banks' control, and I believe that it would be wise to restrict their powers so that they will have power to issue notes on the security of commercial paper to meet trade demands only rather than speculative needs and permit the 9500 members of the Federal Reserve System to have more say as to how credit shall be extended. As now operated, the System sets up a barrier against the operation of the natural law of supply and demand of credit and imposes an impediment that defeats the ends which it was created to serve.

### ***Statutory Reserve Requirements***

ONE of the outstanding features of the American independent banking system is the statutory reserve requirements. The law requires a bank to maintain a certain percentage of its deposits as a reserve, upon the theory that this will insure ample funds on hand to satisfy the demands of depositors for the money which they have intrusted to a bank. These percentages are based upon the possibility of demand, or the velocity of the turnover of these deposits. For instance, the reserve requirements on demand deposits are more than twice the percentage a bank must set aside to insure the payment of time deposits. The demand varies in velocity in the various parts of the country. There is a greater turnover in the big centers and less in the small ones. The requirements are more or less arbitrary, for there does not seem to be any substantial agreement as to just what per cent of the deposits this reserve should be.

Congress, in passing the Federal Reserve Act, took this variance in the demand into account. It fixed the reserve requirements of the central reserve city banks higher than those of the reserve city banks and made the requirements of the country banks even lower. However, the country banks from the start complained that they were at a disadvantage in the scheme of things because they not only had to carry reserves with the Federal Reserve Banks but were obliged to continue carrying balances with their city correspondents. On the balance left with the Federal Reserve Banks they received no interest and thus suffered a cut in their earning power. Under the present law, country banks must carry 7 per cent of their net demand balances and 3 per cent of their time deposits in balances with the Federal Reserve Bank. Banks in reserve cities must carry 10 per cent and 3 per cent, respectively, while, in central reserve cities, the banks are required to carry 13 per cent of their net demand deposits and 3 per cent of their time deposits with these Reserve Banks. It is an open question, to my mind, whether this reserve requirement in the case of the country bank could not be safely lowered. The small country bank, which maintains a membership in the Federal Reserve System today, is not on a parity in de-

veloping benefits with the banks in the big cities. It should be pointed out that in England, or in any other great country, is there such a high reserve requirement as we have in the United States.

### ***Reserves in its Own Vaults***

I AM open minded on the other question as to whether a member bank should not be permitted to carry a certain part of the legal reserves in its own vaults. In the case of banks in Federal Reserve cities and in branch Federal Reserve cities the banks do not have to carry a large volume of cash in their own tills to meet the counter demands for they can send a messenger to the Reserve Banks and get cash without delay. Each night they deposit their till money with the Federal Reserve Banks and the next morning they draw it out.

The country bank is not so fortunate. It must carry enough cash in its till to meet the demand that may be expected during each banking day.

The country banks objected to these provisions, principally because their earning power was cut down by the considerable part of their deposits that was tied up in reserves. The first protests were heard before the Reserve Banks had been able to develop their collection system, it is true, but the complaints have continued. In June of 1917, after the United States had entered the war, Congress passed an amendment, suggested by the Federal Reserve Board, reducing these reserves but requiring all of the legal reserves to be kept on deposit with the Reserve Banks. It left to the discretion of the member banks the amount of currency they should keep in their own vaults, because it was believed they could properly gauge the needs for currency in their own communities.

This did not have the effect of lessening the call upon the bank's capital, for, while the reserves were lower than formerly, a country bank was no longer permitted to count the "float" as part of the reserve.

### ***Relief for Country Banks***

TO make this situation more equitable, I have provided in my bill that a bank must establish and maintain a reserve of 60 per cent as an actual net balance with the Federal Reserve Bank in its district but may keep the remaining 40 per cent either with the bank, in its own vaults, or on deposit with its reserve city correspondent bank. I am not committed to these percentages for these exact figures were suggested for the purpose of stimulating discussion in advance of the convening of Congress. However, there seems to be good reason for permitting a member bank to carry some of its reserve in cash in its own vaults or with its reserve city bank, thus building up a secondary reserve that may strengthen the Federal Reserve Bank's position.

It will be recalled that the Federal Reserve Act, as originally enacted, permitted member banks to carry part of the reserves in their own vaults. However, the reserves were higher than those now fixed, as member banks in central reserve cities were forced to carry a reserve equal to 18 per cent of the aggregate amount of its de-

(Continued on page 700)

# Changes in Bank Reserves Since the Federal Reserve Act

By W. RANDOLPH BURGESS

Assistant Federal Reserve Agent, Federal Reserve Bank of New York

**New Order Brings About Gradual Reduction in Cash in Vault, New Method of Adjusting Bank Reserves and Leads to Growth of Savings Deposits in Commercial Banks. Safety Through Pooling Bank Reserves in Cooperatively Governed Institutions.**

FROM the first the banking system in this country has given expression to the American ideal of individuality and freedom. Almost any responsible person, with a little capital, could start a bank, and the result was 30,000 independent banks compared with a score or two in most other countries. In the United Kingdom there are forty-five commercial banks and in Canada twelve; in France the banking business is largely in the hands of six credit companies, and in Germany largely in the hands of ten banks.

Our laws on bank reserves have been a direct result of our large number of scattered banks. In most countries the kind and amount of reserves maintained by banks are matters of prudent banking practice, not of law. But in this country we found it necessary to pass rigid reserve requirements and enforce them by public inspection in order to secure some degree of strength and safety for our thousands of banks.

## Lessening of Reserves

THE Federal Reserve System has made possible somewhat greater freedom in legal reserve requirements. By uniting the reserves of two-thirds of the country's banking resources in the Reserve Banks, we have overcome some of the dangers arising from our system of scattered independent banks. Consequently it became possible by the Federal Reserve Act and the amendments of 1917 to reduce the legal reserve requirements of member banks to a minimum and leave more to the discretion of the individual banker.

The precise changes in the legal reserves against demand deposits of national banks may be summarized in tabular form as follows:

	Percentage of Reserves Required on Demand Deposits			
	Central Reserve City Banks	Reserve City Banks	Country Banks	
<i>National Bank Act Amended 1887</i>				
Cash in vault (minimum)....	25	12.5	6	
With approved agents.....	0	12.5	9	
Total .....	25	25	15	
<i>Federal Reserve Act Effective 1914</i>				
Cash in vault (minimum)....	6	5	4	
With Federal Reserve Banks (minimum) .....	7	6	5	
In vault or with Federal Reserve Banks* .....	5	4	3	
Total .....	18	15	12	

## Amendment of 1917

All in Federal Reserve Banks 13 10 7  
 \*For thirty-six months from 1914 Reserve city and country banks had the option of carrying these amounts with approved agents.

The reduction in reserve requirements against time deposits was still greater. Under the National Bank Act both time and demand deposits carried the same reserve requirements. In 1914 the reserve was reduced to 5 per cent for all member banks, and in 1917 to 3 per cent for all.

The essential facts about these changes in reserves are that the legally required reserves have been reduced to a minimum, all to be held in the Reserve Banks, and that no requirements are prescribed for cash in vault or balances with banks, but these are left wholly to the discretion of the member banks.

## The Insurance Principle

THE shift in required reserves from the vault or the deposit ledgers of member banks to the vaults of the Federal Reserve Banks is not simply a change in physical location. It effects a change in the character and effectiveness of the reserves and enables them to serve more adequately the purposes of reserves.

The principle which gives greater effectiveness to reserves under the Federal Reserve System is the insurance principle of distributing the risk.

Suppose that you or I own a house. One of the dangers we constantly face is the danger of fire, and every prudent house owner makes some provision against this danger.

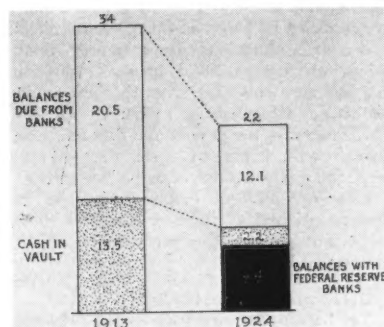
There are various ways in which it could be done. One way would be to start a special bank deposit which we might call our fire insurance deposit. We would lay aside something in that account each month, so that in case the house was damaged by fire we should have something available toward repairing or rebuilding it. While this is a possible method of insurance, it is a ridiculous one, because we would never have sufficient funds to meet an emergency, and the method is too expensive.

What we actually do is enter a cooperative organization with thousands of other house owners, which we call a fire insurance company. Each one of the house owners pays a small sum regularly to a central fund. There are enough house owners cooperating and enough small sums paid in to make a very large reserve fund, which is available to repair or rebuild the houses of any one or several of the cooperating house owners. The insurance principle here is simply that the risk of loss through fire is distributed over thousands of house owners.

This is somewhat the same principle as the Federal Reserve System. Under the old scheme of bank reserves, each bank set aside its own funds against emergencies. The result was that no single bank was able to set aside a sufficient sum to meet its needs in case of a real emergency. But under the Federal Reserve System the reserves of the cooperating banks are pooled and the emergency of any single member can be met, provided, of course, the member has not impaired his borrowing power by dishonest or imprudent banking methods. The principle is the same: The risk is distributed and the vast resources of all are made available for anyone. The strength of the combined reserves is so great that they can be drawn upon heavily at times of general need without fear of exhaustion. The mechanism of the Reserve System is designed for this emergency use. Note issues provide necessary expansion of currency, and the requirement of the highest type of liquid security for all loans insures safety and mobility.

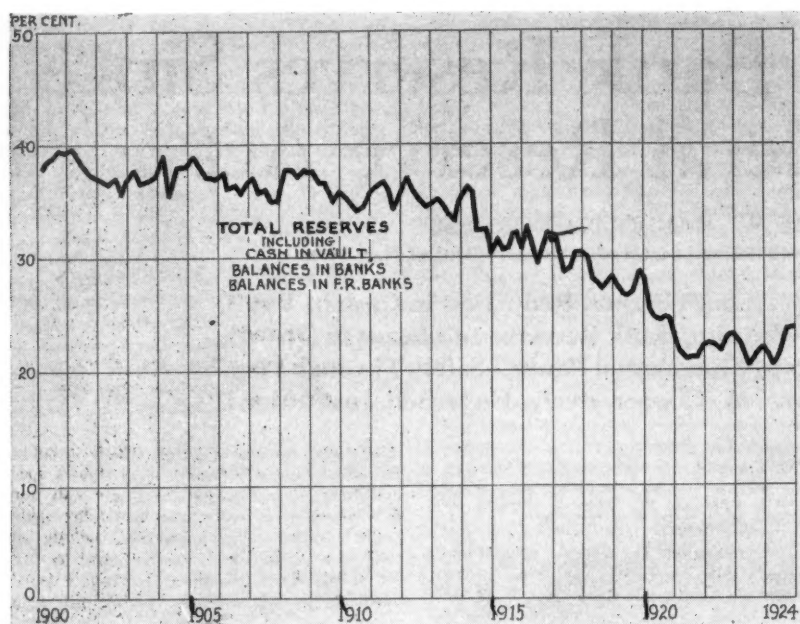
## Change in Amount of Reserves

SINCE the Federal Reserve Act was passed in 1914, banks have in one way or another reduced steadily the amount of discretionary reserves carried in excess of



I—Reserves of national banks in percentages of deposits





II—Reserves of national banks in percentages of deposits

the legally prescribed minimum. The figures for all national banks for the dates of comptroller's calls are shown in diagrams II and III. Since 1917 cash carried in vault has dwindled from about 6 per cent of deposits to about 2 per cent in 1925. Amounts due from banks have decreased from 16 to 13 per cent of deposits. In recent years banks have pared down their balances at the Reserve Banks closer to requirements. The aggregate of working reserves, which we may think of as composed of cash in vault, balances due from banks and balances due from Reserve Banks has been reduced from 34 per cent of deposits in 1913 to 22 per cent in 1924. The principal reduction has been in balances due from banks. The total of cash in vault and reserves with Federal Reserve Banks is now 10 per cent of deposits, as compared with 13½ per cent of cash in vault alone in 1913.

The first important fact about this reduction in reserves is that it has released some funds for investment or loans, with corresponding benefit to the earnings of banks. A comparison of types of banks would show that central reserve city banks have gained most from the release of cash, but this gain has been partly offset by the loss of some deposits from out-of-town banks. Country banks have had little cash released, but have been able to reduce the balances maintained with city correspondents. Reserve city banks have gained moderately in both ways. All groups have gained.

Generally any such release of reserve funds tends to result in expansion of bank credit, which may be the forerunner of price inflation. Fortunately, the principal change in reserve requirements occurred during the war, when credit expansion was almost inevitable and took place in every country of the civilized world. The readjustment in our reserves made our credit expansion more orderly than it would other-

wise have been. Moreover gold imports, absorbed by the Federal Reserve Banks, have built up a reserve back of our war-expanded deposits, and the ratio of the country's total gold stock to bank deposits is now nearly as high as before the war. The figures follow:

**Percentage of Monetary Gold in Country to Total Individual Bank Deposits**

1910.....	10.7
1913.....	10.7
1920.....	7.2
1923.....	10.0
1924.....	10.3

In view of the considerable reduction in bank reserves, which has resulted from ten years of operation under the Federal Reserve Act—a reduction probably greater than the framers of the act or the 1917 amendments contemplated—proposals for further reductions should be carefully weighed.

**Reserves in Other Countries**

IN this connection it is interesting to compare the amount of reserves carried by banks in this country with the amounts currently carried by banks in other countries. It is, of course, difficult to secure figures which are strictly comparable, but the following table has been compiled from the best available data. The reserve figure shown for each country is the percentage of cash, plus balances with banks of issue, to total deposits as nearly as they can be determined. In view of different banking practices in different countries, it is remarkable how nearly uniform are the percentages of reserve carried.

Typical Reserve	
United States member banks.....	10
Ten London Clearing banks.....	11.5
Four French credit companies.....	9.7
Swiss private banks.....	9.0
Chartered banks of Canada.....	11.0

**New Reserve Adjustments**

SINCE the passage of the Federal Reserve Act there has been a notable change in the method by which many banks adjust their reserve positions. In the old days banks could adjust their reserves upward or downward by the sale or purchase of securities, by changing their holdings of call money, or readjusting their deposits or borrowing accounts with city correspondents. Since the security and call money markets were largely in New York, and New York banks were the custodians of very large amounts of reserves of out-of-town correspondents, it was the New York banks and the New York money market in which the final adjustment of reserves was made for a large part of the country. The Federal Reserve System has made the banks of the country less dependent on New York, for a member bank may make final adjustment of its reserves at its own Reserve Bank; thus there are twelve places, instead of only one, where such adjustments can be and are made. Reserves can be increased by borrowing or diminished by repaying loans. There is no way of knowing just how widespread are the changes that have taken place in the practice of adjusting reserves. Many banks, even in large money centers, still adjust their reserves without recourse to the Reserve Banks, but generally the number of banks making occasional use of the Reserve Banks for this purpose is steadily increasing.

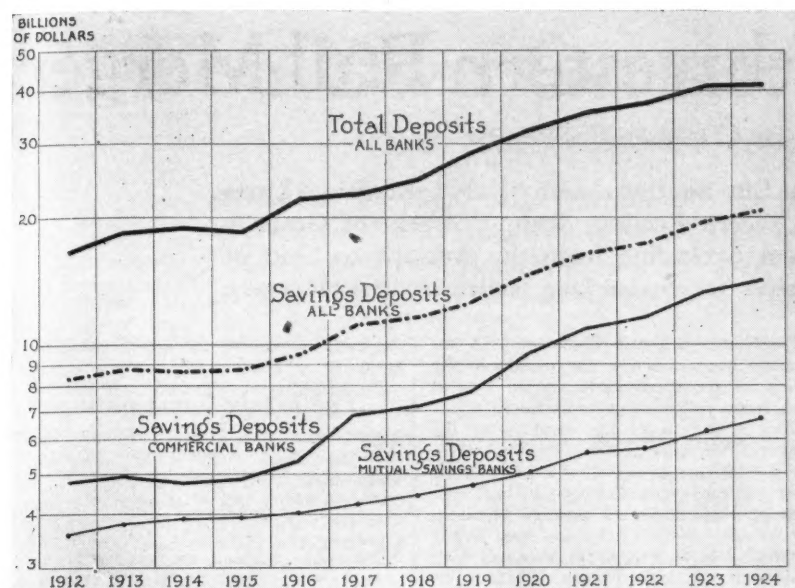
This adjustment of reserves through the Reserve Banks may include adjustments between geographical areas. It will be recalled that during 1920 and early 1921 districts which were short of funds from time to time were able to call on districts with a more ample supply by reason of the borrowing which took place between the Federal Reserve Banks. In periods of greatest industrial need, the East borrowed from the West and South, and at the time of greatest agricultural need West and South borrowed from East. Thus the Reserve System served as a clearing house for the adjustment of reserves between the banks of the country.

The shifting of a part of reserve adjustments from the money market to the Reserve Banks has relieved the money markets of a good deal of strain. The results in more stable money rates from day to day, month to month, and year to year call for more ample treatment in a separate article.

**Encouragement of Savings Deposits**

PART of the reduction in reserves shown in diagram II was due to changed reserves on time deposits and a large increase in such deposits. Before 1914 as large reserves were required on time deposits as on demand. By the act of 1913 reserve on time deposits was lowered to 5 per cent and in 1917 to 3 per cent for all member banks.

There has resulted a remarkable change in the character of business done by national banks. The amount of time deposits in 1914 was a little over 1 billion, but by 1924 was 5½ billion dollars. Time deposits increased from 19 per cent of the total deposits of national banks to 35 per cent.



III—Savings deposits have kept pace with total deposits due particularly to rapid increases in savings deposits in commercial banks

Just what these largely increased time deposits represented is a much debated question. Do they represent simply a reclassification of deposits previously treated as demand deposits; do they represent business which would otherwise have come to the savings banks; or are they new savings deposits stimulated by the offering of more convenient savings facilities and by extensive advertising? There is no way of answering these questions finally. Some light is shed on the problem by a comparison of the growth of time deposits and savings bank deposits. The figures since 1912 are shown in the following diagram and table:

than deposits of mutual savings banks.

The writer's personal and tentative conclusion from these figures and other evidence is that time deposits in commercial banks are largely genuine savings deposits; that the convenient facilities and vigorous advertising campaigns by these banks have brought out considerable new savings.

The recent growth of time deposits raises the further important questions as to whether reserve requirements are adequate, and how the growth of time deposits is changing the character of the business of commercial banks. A commercial bank which begins for the first time to hold a large amount

Growth of Savings Deposits Relative to All Deposits  
(In millions of dollars)

Year	Savings Deposits			Total Individual Deposits	Per cent. of Savings Deposits to Total Individual Deposits
	Mutual Savings Banks	All Commercial Banks	Total		
1912	\$3,595	\$4,830	\$8,425	\$16,728	50
1913	3,812	5,008	8,820	18,597	47
1914	3,910	4,818	8,728	18,914	46
1915	3,915	4,877	8,792	18,645	47
1916	4,034	5,444	9,478	21,991	43
1917	4,249	6,867	11,116	22,744	49
1918	4,370	7,219	11,589	24,450	47
1919	4,651	7,805	12,456	28,468	44
1920	4,966	9,706	14,672	32,647	45
1921	5,583	11,036	16,619	35,300	47
1922	5,689	11,643	17,332	36,964	47
1923	6,273	13,295	19,568	40,930	48
1924	6,693	14,180	20,873	41,131	51

From the report of the Savings Bank Division—American Bankers Association.

### Savings Deposits Keep Pace

WE may summarize these findings as follows:

1. Despite war changes and more widespread buying of government and other investment securities, total savings deposits have kept pace with the rapid growth of total bank deposits.

2. Savings deposits in commercial banks have grown at a slightly more rapid rate

of time deposits may need a complete overhauling of its loan and investment policy.

The protection of time depositors is a part of the problem. In case of a run on a commercial bank, the demand deposit might conceivably be withdrawn by check through the clearing house and the bank's assets exhausted, while the time depositors stood in line at the tellers' window or were perhaps required to wait thirty days. The combining of commercial and savings busi-

ness on a large scale in one institution raises a number of such questions, to which careful bankers are now giving much thought.

### The Changes Wrought

THE Federal Reserve Act, in its revision of bank reserves, has opened the way for many changes in banking practice. Some of these changes are now becoming apparent: a gradual reduction in cash in vault; a new method of adjusting reserves; the growth of savings deposits in many banks to an equal place with demand deposits. Other changes may well be going on under the surface, changes in investment policy, changes in the amount and kind of secondary reserves maintained, and many others.

But the change of supreme importance which has made possible these other changes is the pooling of the reserves of member banks in cooperatively governed institutions, not organized for profit but devoted to the public service. This coordination of banking power has given new strength and stability to the banking system.

### TRACTORS AND THE FARM PROBLEM

"The American farmer has gone back to farming again and is using both his head and his hands," says a statement issued by the National Association of Farm Equipment Manufacturers.

"That is the message to the business and financial world that the farm implement industry has to broadcast at the end of the first quarter of this year, according to the research department of the National Association of Farm Equipment Manufacturers. This message is based on reports from the active heads of the leaders of the industry representing some 200 members scattered over the United States, with branches and dealers touching every farming area in the world and every farm community in the nation.

"The tractor leads in the return toward prosperity of the farm equipment business, says the research department report. With one or two factories running night and day and several behind on orders with the floors of their dealers clean of tractors, the movement is the most epochal since the swift introduction of the reaper following the Civil War. It means that the farmer not only has settled down to solving his own problems with the expectation of remaining on the job instead of moving to town and allowing the next man to try his hand, but he is following business methods by cutting down his overhead and getting back to profits by saving man labor and doing his farm crop work when it should be done and as thoroughly as it must be done for profit."

### Auto Exports Break Records

All records in automotive exports were shattered in March by the United States when 28,000 passenger cars and trucks were sent to foreign countries. The previous record month was set in April, 1924. The exports of passenger cars for March were 47.2 per cent higher than for that month. The value of the passenger cars exported was \$17,675,385.

# A Likely Southwestern Rail Merger

By CHARLES F. SPEARE

**Grouping of Kansas City Southern with "Katy" and Frisco Lines Foreshadowed by Recent Events. Scant Prospect of Grandly Proportioned System Extending from the Atlantic to Gulf of Mexico. High Prices for Secondary Railroads Bar Mergers.**

**T**HE Southwest is again the center of railroad merger activities. In fact, nearly all of the combinations so far effected under the consolidation plan have been within that geographical area. It was the north and south lines rather than the east and west lines that earliest appreciated the desirability of assembling their resources and their facilities under one management in order to obtain the greatest degree of economy of operation and to produce the highest efficiency in service.

Under the captions "The Modern Missouri Pacific" and "Natural Railroad Consolidations" two promotions of railroad unity in the Southwest have been described in the JOURNAL. The Missouri Pacific is today a completed system of nearly 12,000 miles which adapts itself perfectly to that part of the country in which it functions. Since the description of it was written in December it has purchased another small road, the San Antonio, Uvalde and Gulf, an unattached line of 317 miles which rounds out the New Orleans, Texas and Mexico Division of the Missouri Pacific in the region between San Antonio and Corpus Christi.

Then, with a secrecy that is unusual for Wall Street where the ticker betrays many plans, the control of the St. Louis Southwestern, the last of the Gould owned roads, was purchased in behalf of the Chicago, Rock Island and Pacific whose affiliate, the El Paso and Southwestern, had some months previous been bought for the Southern Pacific. It was intimated in the article on the Southern Pacific that eventually the St. Louis Southwestern would be found in the Southern Pacific family. This seems likely to come to pass for the belief is that the Rock Island's purchase of it was for the western line.

## Three Independent Lines

**W**ITH the Missouri Pacific system completed and the Rock Island identified with the Southern Pacific, there remained, as major independent lines, the St. Louis-San Francisco, the Missouri-Kansas and Texas and the Kansas City Southern. The first two have been reorganized within recent years and have experienced a wonderful growth in earning power. The Frisco began to pay interest on its income and adjustment bonds very soon after its receivers were discharged and last year it inaugurated dividends on both preferred and common stocks, a record which no other north and south railroad in the Southwestern territory had held for a long time.

The "Katy" initiated payments on its adjustment bonds within a few months of the ending of the receivership and it, also in 1924, began to return to its preferred stockholders a portion of the earnings of the property. So popular were the junior securities of this group of roads radiating from St. Louis and Kansas City and distributing their traffic all through Missouri, Kansas, Oklahoma, Arkansas and Texas that they sold well above the stocks of long established and long dividend paying companies like the Great Northern and Northern Pacific and even today there is a spread of over 15 points between the quotation for the shares of the two Northwestern roads paying 5 per cent dividends in favor of Missouri Pacific preferred which pays no dividends.

No doubt there has entered into the price basis of all of the stock of the Southwestern group the element of absorption for control when the time for manifesting this control becomes opportune. The Kansas City Southern was the only important Southwestern road to escape bankruptcy in the general crash that followed the outbreak of the war. It, too, has prospered with the growth in wealth and population of the Mississippi Valley and those states which border on it and also of the great Gulf country with its newly discovered riches of oil and sulphur, while the more intensive cultivation of their soils had not only benefited their older crops, but had produced others from which increased economic independence was possible. Then there has developed in this territory a considerable amount of industrial activity with factories established to supply the goods which the local communities required and which had been coming from far off places. In respect to industrial production, the Southwest has been far behind the South, but the changes of ten years in this direction have been great, and they have all contributed to the expansion and stability of railroad revenues.

In the tentative plan of railroad consolidation suggested by the Interstate Commerce Commission, the St. Louis and San Francisco, the Missouri-Kansas-Texas and the St. Louis Southwestern were, with the Chicago and Alton, to form Group 18. The Kansas City Southern was related to Group 19 dominated by the Missouri Pacific. We have seen that the St. Louis Southwestern has been absorbed by the Chicago, Rock Island and Pacific, probably in behalf of the Southern Pacific; also that the Missouri Pacific system is already complete. This leaves a situation where the Frisco, "Katy" and Kansas City Southern are ap-

parently left out of the consolidation program.

## The Likely Combination

**W**ITHIN a few weeks, however, certain developments have taken place which make clear plans in prospects for making a new group of these three systems with the smallest of the three, the Kansas City Southern, likely to be dominant in it. Several gentlemen have been elected directors of the Missouri-Kansas-Texas who are officially connected with the Kansas City line.

There has been a rather close community of interest between the "Katy" and the Frisco since receivership days. From force of circumstances it would seem imperative that the Frisco enter this combination else it will be somewhat of an orphan in the Southwestern territory and handicapped by the combined resources of those roads that would be opposed to it. The Louisiana Railway and Navigation Company, which fits into the Kansas City Southern picture rather closely, permitting an extension of the latter from Shreveport to New Orleans, will eventually be found to be linked with the Loree line.

An effort has been made to build up in imagination a grandly proportioned system, extending from tidewater on the Atlantic to the Gulf of Mexico, the bridge between New York and St. Louis to be spanned by the Lehigh Valley or Delaware, Lackawanna and Western and the Wabash systems with the three lines out of St. Louis and Kansas City, described in this article, to be the Southwestern end of the combination. It has also been rumored that the Union Pacific might extend its traffic jurisdiction from Kansas City into the Gulf region via the Kansas City Southern. When these groupings become so large on paper that they encompass a dozen or more states, they cease to be probable as the intent of the consolidation plan is to establish definite zones, confined within natural geographical areas and not split in two by great waterways or mountain ranges. There was one Atlantic to the Pacific system. There will never be another. Even this was more logical than a criss-cross system uniting the industrial North Atlantic states with the agricultural Southwestern states.

## Obstacles to Consolidations

**T**HE purpose of these articles is to give the readers of the JOURNAL the developments from month to month in the general plan of railroad consolidation. Such con-

(Continued on page 684)



# If You Own German Securities

By ROBERT CROZIER LONG

**Provisions of Two Bills Introduced in the Reichstag to "Definitively" End Uncertainty as to Value of Various Bonds. "Old" and "New" Bondholders in Separate Classes. A Complicated Scheme Which Even Includes Premium Drawings.**

THE contentious question of the lot of German bondholders is at last settled. There were submitted to the Reichstag on March 27 two bills designed to end the matter, in the Cabinet's own phraseology, "definitively." "Definitive" they are in the sense that, though they may be amended in detail, the amendment will not materially increase their liberality to creditors. That is prevented by exigencies of Federal finance. Only under the pressure of Reichstag parties and of an increasing agitation by the creditor class has Chancellor Luther, who was in principle against any increase of the somewhat negative concessions contained in the first revaluation enactment of February, 1924, gone as far as he has.

Of the two bills one deals with public loans; the other with secured private debts of the mortgage and industrial bond classes. Legislation was inevitable, even if no further concessions were to be granted, because the enactment above referred to yielded a crop of disputes on which scores of contradictory judicial decisions have been given.

The enactment referred to was an "Emergency Decree" of Feb. 14, 1924, which was issued without participations of the Reichstag under an "Empowering Bill," authorizing the government to solve urgent economical question directly. The title of the decree was the "Third Taxation Reform Decree" because it also dealt with taxation matters. The contents of this decree, which must be known if the new "definitive" legislation is to be understood, were published in the AMERICAN BANKERS ASSOCIATION JOURNAL of November, 1924. Substantially they were: 1. That holders of public loans could not claim principal or interest until after reparations were fully paid. For municipal loans a certain measure of immediate revaluation was foreshadowed, but not definitely promised. 2. That to mortgagees secured on private real estate and to holders of corporation bonds should be granted new mortgages and bonds of value in gold marks, 15 per cent of the nominal mark total of the old depreciated mark mortgages and bonds. This concession was granted only where the mortgages and bonds were still extant. No revaluation was granted in cases where mortgages or bonds were paid off in depreciated paper marks before the date of the emergency decree.

## The Value of Mortgages

THE new bills amend materially the provisions regarding mortgages and public loans. The mortgage matter has only a limited interest for foreigners, but directly

## New Values

IN the accompanying article Robert Crozier Long, writing from Berlin, discusses the provisions of two bills which have been introduced in the German Reichstag to determine the fate of certain classes of securities. While the propositions are still in the formative stage and still subject to amendment, he points out that there is little likelihood of any change being made on the side of liberality toward those of other nationalities who may hold German securities. Mortgages, Federal, state and municipal bonds are discussed, and there is a warning to Americans who would carry grievances to court.

or indirectly some foreign interests may be involved, and I shall summarize the amendments briefly.

In principle the 15 per cent revaluation is increased to 25 per cent. This concession is, however, qualified. The newly conceded 10 per cent applies only to such mortgages or parts of mortgages as do not exceed half the value of the hypothecated real estate. Under the decree of 1924 an old 100,000 marks mortgage was converted into a new 15,000 gold marks mortgage, regardless of the value of the real estate. Under the new bill, if the real estate has a value of 200,-

000 gold marks or more, the 100,000 marks mortgage becomes 25,000 gold marks. If, however, the real estate has a value of, say, only 150,000 gold marks, the new mortgage is only 22,500 gold marks (new Dawes reichsmarks); that is, the original 15,000 marks revaluation plus 10 per cent on 75,000 marks, or on that part of the mortgage which does not exceed half the value of the property.

This complication has the aim of giving specially high revaluation to well-secured trust mortgages. Mortgages paid off before the date of the emergency decree, but after Dec. 31, 1922, are restored and revalued to half the amount of the revaluation which would have been conceded, had they not been paid off. This last concession involves serious dangers to recent buyers or lenders upon security of real estate; also to recent sellers.

In certain given conditions the recent buyer, being himself obliged to take back a mortgage which was legally extinct at the time of his purchase, is permitted to demand corresponding compensation from the seller. It is not, however, certain that the seller will be in a position enabling him to pay the compensation. Further, the seller may be financially shaken or even ruined by having to meet a large claim unexpectedly. Finally (but only in certain conditions which the bill states), a revived old mortgage will take precedence of new mortgages, although the latter were entered in the land registers as first mortgages. American past or prospective lenders on mortgage security, and American lenders to industrial companies which had or have mortgages among their liabilities, should exercise extreme care. In doubtful cases the courts persistently give judgments against foreigners.

The revaluation percentage of corporation bonds remains unchanged at 15 per cent, and if paid off, the bonds are not revived. The reason for this exemption is that corporations already bear reparations bond burdens, from which real estate is free.

The first provision of the Public Loans Bill is that old loan certificates shall be called in and new bonds in gold marks (Dawes reichsmarks) shall be given in exchange, to a heavily scaled down amount. The new bonds will be called "loan redemption debt" (*Anleiheablösungsschuld*). This provision applies to Federal, state and municipal bonds, regardless of the holder's nationality. Therewith the uniform treatment of the three mentioned classes of bonds ceases and the further fates of each must be separately described:



He has been paid. "Holders of all these can claim only paper marks to the nominal value"



"Only 'old' holders will take part in the amortization and premium drawings"

**B**EFORE a date which the Finance Minister will announce, existing bonds must be handed in to a special department which is yet to be established in the Finance Ministry. In exchange for every 1000 marks nominal of old bonds, the Ministry will issue to the holder a 50-reichsmark bond of the new "loan redemption debt." All holders, from original subscribers down to the latest speculative purchaser, including persons who buy after the publication of the bill, can claim the exchange.

Loans to be so treated are all the pre-war and war issues, also Federal treasury bills, and such of the former state loans as were taken over as a Federal liability in 1921 in exchange for the surrender of the state railroads to the republic. Holders of the only post-war funded paper mark loan, the "Savings and Premium Loan" of 1919, can also claim the exchange. But as this loan was subscribed in considerably depreciated currency, the holders will receive only 50 reichsmarks of "loan redemption debt" for every 2000 marks nominal of their holdings.

No person can claim exchange of any loan when his portion of new "loan redemption debt" would be less than 50 reichsmarks. In other words, holdings of less value than 1000 marks nominal of old loans are excluded from the exchange.

Excluded altogether are: The Forced Loan of 1922-23; non-interest-bearing treasury bills; pre-war state notes (*Reichskassenscheine*), and loan certificates (*Darlehenskassenscheine*), created in August, 1914, both of which circulated as currency, but which are technically a Federal liability.

Holders of all of these can claim only paper marks to the nominal value, which means that the liabilities are de facto repudiated, as the paper marks are depreciated to the one-trillionth of their original gold parity.

### No Interest, But Three "Rights"

**T**HE new "loan redemption debt" bonds will bear no interest until reparations are fully paid and are, therefore, practically worthless in themselves. The bill, however, proceeds to differentiate between "old" and "new" bondholders, and to concede to the former what is equivalent to interest on their allotments of "loan redemption debt." Further a chance of immediate or speedy amortization is conceded.

"Old" bondholders are all persons, whether original subscribers or not, who have held exchangeable bonds uninterruptedly since June 30, 1920. Persons who sold their bonds before or after that date and repurchased them later do not count as "old" holders." To this rule certain exceptions are made: e.g., bonds compulsorily purchased under trust laws or trust deed stipulations may be classed as "old" even though the purchase was after June, 1920.

In detail the concessions to "old" bondholders, all of which are refused to "new," are of three kinds.

1. Veiled interest. This is called a "loan allowance" (*Anleiherente*). It begins from Jan. 1, 1926, and is at the rate of 5 per cent per annum on the nominal value of the "old" holder's new "loan redemption debt" bonds. The "old" holder who, for instance, hands in for exchange 100,000 marks nominal of an old loan receives 5000 reichsmarks nominal of "loan redemption debt." So far he is in exactly the same position as a "new" holder. But the "old" holder will receive annually 250 reichsmarks as "loan allowance," which is 5 per cent on his 5000 reichsmarks of "loan redemption debt." The "new" holder will not get the "allowance." It would have been sufficient, it at first appears, simply to promise the "old" holder 5 per cent "interest" on his "loan redemption debt"; the cost to the republic and the benefit to the bondholder would be exactly the same. The reason for not adopting this course is that if the republic resumed interest payments it would be obliged to pay them indefinitely. The bill, however, declares that the "allowance" will be paid only insofar as the finances permit, and at first only for the three years 1926-28, after which the "allowance" will be renewed if finances permit. This will continue until interest proper is resumed upon all "loan redemption debt," whether it is in the hands of "old" or "new" holders. That will be when reparations are paid. The "allowance" is paid not as interest upon the "loan redemption debt" bonds themselves, but the amount of these bonds held by an "old" bondholder is the factor which is to determine the amount of his "allowance." The "allowance," in fact, is made to the individual, and he must make an application for a certificate recognizing his right to it. He is allowed to sell his rights under the certificate.

### Amortization and Premium Drawings

2. A right to share in the amortization of the "loan redemption debt." A sum of money will annually be devoted to amortization and a further sum to premiums on the usual premium-bond principle. Only "old" holders will take part in the amortization and premium drawings. The premium may amount to a sum not exceeding four times the nominal value of the individual's holding of "loan redemption debt" bonds. Under this system a winner may receive back in cash altogether five times the value of his "loan redemption bonds," which would be 25 per cent of his holding of old mark loans. This gambling factor is introduced in order to reconcile bondholders to the meager 5 per cent revaluation; they can always hope

to get much more by winning a premium.

3. The right to a "preferential loan allowance" for life. This will be granted only to German citizens resident in Germany, who are "old" holders of war loans (not of other Federal loans), and who are in distressed circumstances. Its maximum amount is eight times the "allowance" which the bondholder could have claimed under No. 1, but it must not exceed 600 reichsmarks a year. It is the only distinction made against foreign bondholders in any part of the bill.

The annual cost of this scheme to the republic is 140,000,000 reichsmarks. This sum goes as follows:

	Reichsmarks
"Loan allowances" .....	50,000,000
Amortization .....	25,000,000
Premiums .....	25,000,000
Preferential "loan allowances" ..	40,000,000

### A Purely "Platonic" Debt

**T**HE estimates upon which this expenditure are based as follows: Altogether 70 billion marks nominal of Federal loans come under the scheme. Of this sum 50 billions are held by "new" bondholders. In exchange for these the republic issues 2500 millions (5 per cent) of "loan redemption debt" bonds. As they do not bear interest until reparations are paid and do not share in the amortization or the loan allowances, they constitute a purely platonic debt which is no burden whatever. Twenty billions nominal of loans are in the hands of "old" bondholders. In exchange for these the republic issues 1000 millions (also 5 per cent) of "loan redemption bonds." Though technically speaking these also bear no interest, the republic has to pay "allowances" at the rate of 5 per cent a year on the 1000 millions, so that the annual cost is 50 millions as shown above. In reality the figures are rather loose estimates; only experience can show even approximately what proportion of bonds changed hands after June, 1920.

If the above sounds very complicated, it may be said that it is much simpler than the bill, which contains endless qualifications and reservations, which I have had to omit. How, it will be asked, does the bondholder come off? The answer is: Most bondholders come off worse than even pessimists expected; some will come off better



"Foreign bondholders can easily determine how they come out by calculating on the above principle."

than optimists expected. All "new" bondholders will come out of the matter with practically complete loss. Most of the "old" bondholders will come out of it badly though they will get a certain small compensation, and some will come out of it very well and may conceivably get back their whole invested capital and even very much more. This disparity is due to the fact that all "old" bondholders are to get the same revaluation despite the fact that some purchased their bonds with marks of full gold parity value, while others purchased them in marks depreciated to half, tenth, and even to twenty-fifth of the gold parity value.

### If He Wins a Premium

OBVIOUSLY the "new" holder gets practically "no revaluation." His non-interest-bearing "loan redemption debt" bonds will have no present actuarial value. The "old" holder who was an original subscriber, or who bought when the mark was still undepreciated, has a chance that his "loan redemption bonds" will be amortized at once or in a few years, in which case he gets back 5 per cent of his original capital investment. Meantime (assuming that the "allowances" continue) he gets 5 per cent on the 5 per cent scaled-down capital. He gets, therefore, 0.25 per cent a year on his original investment. Only if he wins a premium in the amortization drawings can he do better; and then, as stated, he may get back 25 per cent of his original capital.

But the "old" holder who bought his bonds when the mark was heavily depreciated will do much better. How well he will do depends upon the degree of the depreciation. If he bought when the mark was depreciated 50 per cent, he will do twice as well as the original subscriber or the buyer when the mark was undepreciated. He may conceivably have bought in early February, 1920, when the mark was depreciated, for a short time, to the 1/25th part of its value. In order to compare two extreme cases the following calculation is given:

Buyer in 1914. Mark at around gold parity. Investment, 1000 gold marks, or, if a foreigner, \$250. Received therefor 1000 marks nominal of war loan. Under new bill receives 50 gold (reichs) marks of "loan redemption debt." If amortized, receives at least 50 gold marks; if with a premium, a maximum of 250 gold marks. Receives at most a quarter of his original investment; meantime as "allowance" receives 2.50 marks per annum, or 0.25 per cent of his original investment.

Buyer in February, 1920. Mark depreciated to 1/25 (Dollar exch. 100 M.). Investment \$250, equal to 1000 gold marks, yielded 25,000 paper marks. Bought therewith approximately 28,000 marks nominal of war loan (Bourse quotation around 90). Under new bill receives 1400 gold (reichs) marks of "loan redemption debt." If amortized, receives at least 1400 gold marks; if amortized with a premium, receives a maximum of 7000 gold marks, or seven times his investment; meantime as "allowance" receives 70 marks per annum, or 7 per cent on his original investment.

Between these two extremes are all imag-



"How," it will be asked, "does the bondholder come off?"

inable decrees of loss and gain. In the first half of 1920 the mark's depreciation varied between about 1/25 and 1/8. At this period there were heavy American purchases, in particular of municipal bonds. The above instances show how imperfectly the government's intention is realized in practice. The intention in differentiating between "old" and "new" holders by fixing an arbitrary date was to prevent profiteering by later so-called speculative buyers. But even within the "old" class the speculative buyer can get 5, 10 or even, as shown, 25 times more effective revaluation than the buyer who himself subscribed, or who bought with marks of full gold value.

"Old" foreign bondholders can easily determine how they come out by calculating on the above principle at the exchange which they obtained for their dollars, pounds, etc., when buying the bonds.

### Valuation of State Loans

THE outstanding total of state loans is small, the Prussian, Bavarian and most, but not all, other state issues dating before 1921 having been, as stated, taken over by the republic. For those loans which are still outstanding, the standard revaluation of 5 per cent is promised, and the bill forbids the states to exceed this 5 per cent. But whereas Federal loans are to be revalued on basis of their original gold value at date of issue. Thus a holder of 100,000 marks nominal of a state loan issued when the mark was depreciated to one-fifth will receive not 5000 reichsmarks nominal of "loan redemption debt," but only 1000 reichsmarks. State loans issued before Dec. 31, 1918, are, however, summarily treated as having been of full gold value; and in this case the holder gets the whole 5000 marks of "loan redemption debt." No distinction is imposed between "old" and "new" holders. But a state may grant "new" holders who acquired after June, 1920, a lower revaluation than 5 per cent. All "loan redemption debt" granted to holders of state bonds will from the first bear interest (not "allowances"), and the interest rate may be anything between 5 and 10 per cent, but the interest payment may be

stopped or suspended. Until each state has decided its policy in regard to these three *mays*, it is impossible to say how bondholders will come out. No distinction is made between natives and foreigners.

### The Yield from Municipal Loans

THE treatment of municipal loans is in principle the same. Here also no distinction is made between natives and foreigners. The restriction of the municipalities to a 5 per cent revaluation is being sharply criticized. The emergency decree created certain powers under which municipalities could be compelled to revalue their loans without waiting until reparations are paid, but these powers were not exercised. The reason for leaving the possibility open was that the yields of municipal bond issues went largely into local undertakings, such as street car systems, gas and electricity; and the municipalities still own and draw profits from these enterprises. Until the new bill appeared, the municipalities expected to be compelled to revalue more or less liberally, and in order to save money on the deal they began to buy back their bonds from the public, paying low prices but prices which were nevertheless often more favorable to the bondholders than the maximum 5 per cent conceded under the bill. Small towns—e.g., Würzburg, Kissingen and Darmstadt—bought up at over 5 per cent, and Bielefeld bought at 7½ per cent, and in addition, set by a sum sufficient to pay interest immediately on 25 per cent of the bonds. As their finances are mostly good, there is no reason why the municipalities should not grant more than the 5 per cent to which they are limited by the bill.

Foreign bondholders who belong to the "old" class will have to prove their claims. The bill gives the Minister of Finance power to issue rules (which have not yet appeared) laying down the procedure of exchange and proof. It mentions, however, two particular kinds of proof: Affidavits and verbal declarations under oath before the lowest court, (the *Amtsgericht*), and presumably affidavits will be accepted from foreigners where no other proof is available.

### President Knox's Itinerary

WILLIAM E. KNOX, the President of the American Bankers Association, will address a number of gatherings of bankers during the early summer months. On April 23 he spoke before the Georgia Bankers Association at Macon. On May 14 he will address the Tennessee Bankers Association at Nashville.

Other dates on his schedule are as follows: May 18, Missouri Bankers Association; May 20, Knife and Fork Club, Kansas City, Mo.; May 20, Chamber of Commerce, Kansas City, Kan.; May 21, Kansas Bankers Association, Topeka, Kan.; June 5, New England Bankers Association, Swampscott, Mass.; June 17, Iowa Bankers Association, Dubuque, Iowa; June 18, Illinois Bankers Association, Peoria, Ill.; June 20, Colorado Bankers Association, Bear Creek, Colo.



# What the Return to Gold Means

By RIXEY HOBSON

**Removal of Uncertainty in Trade by Extending the Common Standard of Values Foreseen by George E. Roberts. Business Can Be Done on Smaller Margin. Francis H. Sisson Expects Accumulation of Funds in London. The \$300,000,000 Credit.**

**A** GREAT moment in the financial history of the world came late in April when Winston Churchill, the British Chancellor of the Exchequer, announced without a flourish in the House of Commons that, from that moment, Great Britain had returned to the gold standard.

There was nothing particularly dramatic about it. For the action had been discounted in all of the principal money centers. The chancellor's words, "We thus resume our international position as a gold standard country from the moment of the declaration that I have made," were not even punctuated with an outburst of cheers or the less moving comment of "Hear! Hear!" Yet in these words the speaker signalized the consummation of one of the greatest achievements in the realm of finance and decreed the failure of a far-flung movement to dethrone gold as the common standard of values with fiat money and composite currencies.

The resumption of specie payment in the United States stands out in American annals as a landmark in our financial history. It was hailed as a great sound money move. Yet the greenbacks were not redeemable in gold until four years after President Grant signed the law, and the measure was regarded by many as distinctly an inflation measure. The action taken by Great Britain was a much more momentous step in the direction of sound money; there was immediate resumption and as an echo of the announcement, there came the news that Holland had returned to the gold standard, while Australia and New Zealand had reverted to a policy of the free export of gold. This one stroke was felt in every continent.

There was further significance, for when Great Britain embraced the gold standard, the widespread and dangerous movement of the past few years to substitute fiat money and managed currencies for this time-revered basis of values collapsed. It marked the culmination of the greatest sound money movement that the world had ever seen.

## The United States' Interest

**T**HE United States will profit from the action, according to the views of some of our most prominent economists.

"The restoration of the gold standard by Great Britain will remove the uncertainty in trade by extending the common standard of values," George E. Roberts of the National City Bank of New York said, in discussing its significance. "It will tend to promote trade between the British empire and the United States by eliminating the

exchange risk and thus stabilizing the conditions under which trading occurs.

"The paper pound sterling in January, 1924, stood at \$4.21. By January, 1925, it had advanced to \$4.80. This wide fluctuation obviously made the risks of doing business greater, especially if the commodities bought had to be held for any length of time before they were marketed. With the shifting rates of exchange there was always the chance of having the profit anticipated on any transaction wiped out by a decline or rise. In the future the importer or the exporter can be assured that the pound sterling will be worth \$4.86. Business deals can be made with this knowledge.

"With the risk eliminated, business can be done on a smaller margin and this will tend to increase the volume of trade between the United States and Great Britain and her dominions."

## Trade Back to Normal

**T**HERE will be still another great benefit, according to Mr. Roberts, even though it be of a sentimental nature.

"The British government would never have announced its return to the gold standard unless it was sure that the resumption of gold payments could be maintained. Before taking this step, the responsible officials doubtless consulted with the most thoughtful business men and financiers in the empire to get the benefit of their counsel. Therefore, this action means it is the ma-

ture judgment of the British business world that trade conditions are stable and that we may look for normal conditions to prevail in the future. This is reassuring to the people of all nations, for it shows confidence in the future of world trade.

"The advantages of having a common monetary base are in no degree exclusive, but are shared by all countries trading under it. The interest of Great Britain in the sphere of world trade is not second to that of the United States or of any other country, and she has more to gain than any other country from a general return to the gold standard. It must be remembered that she is still a creditor nation on a large scale, with payment running to her in terms of her own money from many parts of the world. On the other hand, she owes the United States a large debt that is payable in dollars. So long as the pound remained below par, Great Britain had to pay a premium in the conversion from pounds to dollars and, furthermore, the prices which she had to pay for her purchases of wheat and cotton and other American products involved the payment of a further premium. However, the chief reason impelling Great Britain to return to a gold standard was the need on the part of her industries for a stable basis that would bring an end to the fluctuating exchanges that disrupted her relations with the outside markets. It will permit the British manufacturer to figure in advance the price he will have to pay for the raw materials he imports, and to foretell, with reasonable assurance, the prices he will obtain for his manufactured goods. This will tend to stabilize conditions by making for larger scale production and greater employment, because the industries can operate on a smaller margin if the risks are reduced.

"The United States has a direct interest in the action taken by the British, because Great Britain is the largest buyer of our products. The end of fluctuations in the relation between the pound and the dollar, cuts down the element of uncertainty and hazard, and this tends to hold trade that might be turned in other directions. For the same reason we want the other countries back on a gold basis."

## The \$300,000,000 Credit

**A**T the same time that Chancellor Churchill announced the resumption of gold payments, it was revealed that the largest bank credit ever set up for the use of a foreign nation in peace time had been established for Great Britain in the form of a

(Continued on page 701)



—Sykes in the New York Evening Post

# The Inner Mind of the Federal Reserve Board

By LOUIS ALEXANDER

**How the Banker May Follow Trends in Banking and Interpret Them in the Light of Federal Reserve Policies. The Bulletin and the Well Rounded Picture of Economic Conditions. Reading May Disclose Reasons for Important Steps in Credit Control.**

THE considerations that move the Federal Reserve Board and the Federal Reserve Banks in the adoption of their policies, which have such a far-reaching effect on the whole American financial world, are seldom, if ever, disclosed. The various factors that underlie an advance in the rediscount rates or the reasons why the reserve banks decide to enter upon a policy of reducing their holdings of government securities are never made known in any detail. What goes on behind the closed doors at Washington and at the meetings of the directors of the 12 Reserve Banks is a matter of speculation—for what the conferees consider remains closely guarded; indeed, the considerations that move them to action remain largely in the back of their minds instead of being revealed by a reasoned statement. For, in the final analysis, it is largely a matter of judgment, and the reasons underlying any course of action are deemed to be too complex and too far-reaching in their implications to submit themselves to a single public statement.

The nearest thing to a view behind the scenes, insofar as it reveals what is in the Board's inner mind, is the *Federal Reserve Bulletin*, the monthly publication that the system sponsors. It is the mouthpiece through which the Board may voice its opinions of the credit situation, discuss the meaning of the most recent developments in banking and indicate what trends are to be observed. But primarily the *Bulletin* is regarded as a means of distributing information on banking and business conditions, precisely the information which the Board and the twelve banks use in determining this credit policy.

## Ten Years Old

IT is now ten years since the *Bulletin* first made its appearance. It has passed through several stages of development from the early days when it recited briefly what the Board had considered during the month, told of the early problems of the organization and devoted a scant few pages to a review of business conditions. With the passing of time, the *Bulletin* was enlarged by figures showing the volume of production, the extent of wholesale and retail trade and the state of credit in this country and abroad. One after another indexes and other valuable compilations have been added to the book, while special studies of various banking problems have been added. In-

deed, it has come to be such a formidable looking publication that its bulk and maze of statistics have frightened many well intentioned bankers from making profitable use of the information it contains.

How can the average banker read the *Bulletin* and get information that will aid him in the conduct of everyday banking? This is the practical question that arises within the banker's mind.

It is hardly reasonable to expect that the data appearing in a monthly publication of this character will be current. It can afford to run only reliable and official statistics and, by the time these are compiled and printed, they are at best a review of past events. But the banker shapes his operations months in advance and bases his loans and commitments with a mind to conditions that will prevail in the future. And, just as coming events cast their shadows before them, trends in banking may be observed by a careful examination of the pertinent data.

The chief benefit to be obtained from following the *Bulletin* is to discover these trends and to interpret them in the light of the policies of the Federal Reserve Board—to get a well rounded and matured picture of the economic and financial situation, based on authentic and official data. Judgments based on fragmentary and current data do not promise to be as sound as those growing out of more complete and mature facts. So it is not to be expected that the figures will be strictly current.

## Federal Reserve Powers

THE Federal Reserve Banks have the power to speed up or put the brakes on business. For, by the raising of rediscount rates, they can curb expansion; by lowering them, they can make credit available cheaply and encourage new undertakings. By buying large amounts of securities and commercial paper in the open market, the reserve banks can place funds in the hands of the banks, and by selling them can withdraw funds from the banks, and often make them resort to borrowing at the reserve banks. With these means of maintaining an effective credit policy within their power, nothing can therefore be of more importance for banks than to understand as fully as possible the Federal Reserve policy.

While it is true that the regional reserve banks initiate rediscount rate changes, the Federal Reserve Board periodically reviews these recommendations and reserves the right to approve or disapprove them. In this

way it has the final word. As the central supervisory power the Board moreover is usually the spokesman for the entire System in matters of Federal Reserve policy.

Its observations of conditions are sometimes quite significant. Before the country was plunged into the throes of depression in 1920, the *Federal Reserve Bulletin* observed "the development of certain abnormal demands and their influence upon the credit situation within the past month. Considerable amounts of goods have been withheld from the market in the hope for higher prices and have been financed with bank credit," it added. "This has resulted in inflating credit in a substantial degree, the continuous carrying of the goods which have thus been hoarded preventing the considerable amount of liquidation which would ordinarily take place."

Early in that same year it warned that "bank credit is proceeding at a rate not warranted by the production and consumption of goods." Surely this foreshadowed putting on the brakes. In another review it told of the downward plunge in Japan of the raw silk movement, which was a warning signal of the world collapse in commodity prices.

## The Bulletin's Arrangement

THE arrangement of the *Bulletin* has become more or less fixed, with certain definite features and certain compilations of statistical data. The first pages are given over to a "Review of the Month," in which the Board explains the meaning of what has happened in the financial world and some times hints as to what may be expected. It has been noted that the Board has, for the past year or so, confined these observations largely to a review of past events and seemingly has been reluctant to express its opinion as to what may be regarded as financial trends as distinct from a series of events, or to indicate policies which should be followed in view of the analysis made.

This review may be regarded as the editorial part of the *Bulletin*—for it interprets the meaning of financial figures and their influence in changing the banking situation. In the March issue, for instance, it commented upon the decline in the loans and investments of member banks and the reduction in demands deposits. "In 1924," it recited, "the continuous inflow of gold both directly increased the deposits of mem-

ber banks and provided them with reserve balances to support a growth in their credit, and the recent outflow of gold has been a factor in reducing deposits and in diminishing the balances of member banks at the reserve banks." Inasmuch as this outflow of gold caused a growth in the borrowing of member banks at the Federal Reserve Banks and led to an increase in rates on commercial paper, what would be the effect of an increased export movement of gold, the banker would ask, in view of the fact that the Board makes this observation on the effect of the change in the tide of gold.

### Tests of Credit Needs

WHILE the banker, by virtue of his close touch with local business, is familiar with credit conditions in his community, his knowledge is generally somewhat limited, if confined to this area. Doubtless, it would be to his advantage if this knowledge were extensive enough to cover a broader field. There are four basic factors in the business structure—production, trade, prices and bank credit. Monthly the *Bulletin* offers four charts which show in a graphic way the changes in these underlying conditions so that, by glancing at them, the banker may obtain an idea as to whether a healthy relationship exists among them.

Charts, expressing the movement of production in 22 basic industries, show whether production is going up or down. The trend of wholesale prices is indicated in another, while two others show how the Federal Reserve Banks and the member banks have made loans and investments. The production of the basic industries is, of course, to be watched because it affords a test of the credit needs of the country for inflation arises when credit expands more rapidly than goods. By glancing at these charts, the banker may be on the outlook for danger signals of coming trouble in the business structure. It is true that these statistics lag somewhat behind. In the case of production, the May issue of the *Bulletin* will not indicate production later than March, but this cannot well be helped.

As distinct from the business data, the financial statistics which the Reserve Board obtains are nearly current, and it does not withhold any data that would be of use so that they may appear first in print in the *Bulletin*. It makes public weekly a consolidated statement of the condition of the twelve regional banks. The figures are fresh—for late Thursday afternoon the condition of the reserve banks at the close of business on the preceding day are assembled by telegraph. The condition of the member banks is disclosed, but these figures are a week older. The statement affords the most up-to-date cross section of the condition of banking in the United States, and among the figures may be found several of immediate interest to the banker.

### Regional Bank Operations

THE regional bank figures show how their earning assets are invested; how much is out in rediscounts; how much is invested in acceptances and how much in securities and paper. They show whether or not the banks are calling upon the reserve banks for credit. Loans secured by stocks and

bonds indicate the extent of borrowing for stock exchange activities. The member bank figures reveal whether loans and investments are increasing or decreasing, whether the reserve balances maintained are shrinking or expanding, and whether the net demand deposits of banks are going up or down. An examination of these figures from week to week should indicate whether the country is moving toward money ease or tightness. The movement of bankers' balances is shown. Inasmuch as the withdrawal of balances maintained by country banks with the correspondent banks in the big money centers is one of the first signs of increased demand for credit in the interior, this is a valuable indicator of money conditions.

The production of the basic industries is of real importance, as it indicates how credit is being used. Each month the *Bulletin* reports on the production in the basic industries and gives a brief survey of the developments in the major branches of the agricultural, mining, manufacturing, building and transportation fields. While the average banker would not desire to read all of the surveys, he should be able to inform himself about one industry, or any commodity, without much effort.

One may find a brief résumé of bank credit, the condition of the money market and the activity in acceptances. The flotation of new capital issues is reviewed and changes in the prices of securities. Of course, this is more or less a review of water that has gone over the dam, but it shows the changes and indicates why they took place. The course of saving deposits and the extent of commercial failures and bank suspensions is recorded.

### The Foreign Link

PRICES in the United States and in Great Britain and other foreign countries can hardly be regarded as unrelated. So it is advisable for the banker to have a general knowledge of conditions prevailing abroad. The *Bulletin* reviews the gold movement, reviews the fluctuations in the foreign exchanges and gives international price comparisons, with a condensed statement of the financial condition of the principal central banks. In these times, when there are generous offerings of foreign securities, the figures are welcome. The discount rates of 27 central banks appear in the *Bulletin*, but the Board makes a practice of announcing the changes to the press as soon as they are received. The foreign trade figures of the United States and the principal countries are printed, so that it may be seen at a glance whether or not the trade balance has been favorable or unfavorable. Production, price movements and the level of wholesale prices, expressed in index figures, are carried. In just such a manner the Board tells whether the price of food is going up in sixteen foreign countries, and it reveals whether the cost of living is becoming dearer or cheaper.

The most detailed banking and financial statistics, covering the Federal Reserve System are printed, in each issue. It is possible to obtain a most complete picture of the operations of the regional and member banks if one desires to make a thorough-going analysis.

If one desires to obtain an idea of business activity in any city, this may be obtained by an analysis of the deposits or the debits to individual accounts, which shows the activity in the individual checking accounts. The gold settlement fund, dealing with interbank transactions, would show the flow of money from one section of the country to another.

The *Bulletin* prints monthly the money rates prevailing in the leading cities, showing the customary rates charged on loans and discounts in the various cities throughout the United States. The figures, while nearly a month old when printed, give a very definite idea of what it costs to obtain credit in the various sections of the United States and are of value.

### The Special Articles

THESE are the fixed features of the *Bulletin*. From time to time special articles appear. The research division of the Board looks into various subjects of timely interest. A short while ago an exhaustive study of branch banking was published, the earnings of member banks were reviewed and other topics of this type have been treated. The official rulings of the Board, the opinions of the law department and official announcements regularly appear in the contents.

From time to time the editors of the *Bulletin* include new features. For instance, at the present time an effort is being made to provide a more dependable index of employment than is afforded by the number of persons employed. It will indicate this by the dollars paid out on the payrolls. In due time this will be incorporated as one of the new features. The Board developed the system of reporting business activity by reporting the volume of sales by the department stores in the various reserve districts. To indicate whether there was an accumulation of goods the Board obtained figures showing the average monthly stocks carried. One by one it has developed this network of reports until today it tells the changes in the wholesale trade in groceries, drygoods, shoes, hardware, drugs, furniture, agricultural implements, stationery, automobile supplies, clothing, machine tools, diamonds, jewelry, electrical supplies, millinery and stoves.

The pulse of retail trade is felt by reports as to the volume of sales made by department stores, mail order houses and chain stores, selling groceries, candies, music, shoes, drugs and other articles priced at five and ten cents. Index figures are used but, in order to allow for seasonal variations, adjustments are made, so as to permit the average person to draw the proper conclusion as to the state of business.

### The High Spots

IT would be idle to think that the average banker would find a sufficient amount of time to read the *Bulletin* from cover to cover. The question resolves itself more or less into hitting the high spots and concentrating upon the features of especial interest.

Undoubtedly the most important part of the *Bulletin* is the review of the month, for it is more or less the official view of the  
(Continued on page 722)



# Financial Troubles of the French Government

By EDWIN L. JAMES

**Crisis Shows the Defects of a System Which While Producing Liquid Capital Necessarily Exposes the Treasury and the Bank of France to Dangers. Though the Budget Is Balanced the Treasury Runs on a Small Margin. The Cause of the Crisis.**

**G**ENERALLY speaking, the financial troubles of the French government are of course the result of the cost of the war. Specifically, the difficulties which led to the overthrow of the Herriot government and the placing in the Finance Ministry of Joseph Caillaux, the stormy petrel of French politics, form a detail of the general problem.

Herriot was ousted on the technical charge of having constrained the Bank of France to issue between two and three billion francs in bank notes above the legal limit of note circulation, and to have concealed the transaction.

The results of Herriot's action and the considerations which produced it call attention at once to the system by which France has most largely financed her post-war reconstruction, a system which, while having the benefits of obtaining for the treasury the use of French liquid capital, has, as is now being seen, the disadvantage of exposing the treasury and the Bank of France to very great financial dangers.

This system consists in the sale to the public of one, three, six and twelve months' treasury paper known as *bons de la defense nationale*. These bonds, bearing an average interest of  $4\frac{1}{4}$  per cent were first floated back in 1920. Their total now amounts to around seventy billion francs—the total varies from week to week—and due to their short terms, amount almost to that total of demand notes out against the treasury. The system obviously has its advantages, for it obtains for the use of the government, and at a comparatively low rate of interest, money it could not get hold of by an ordinary loan. The business and financial institutions of France use *bons de la defense nationale* as liquid capital. In

fact, the larger part of all bank deposits in France now exist in the form of these short term notes which, maturing so quickly, amount to liquid capital.

Since the system was constituted the prevalent tendency has been for holders of these securities to accept new bonds on maturity or, when they were cashed in, shortly afterwards the banks, which would in the natural course of events receive as deposits the products of the redemption of the notes, purchased new ones from the government. As long as confidence reigns and business is good the system works.

they are received and the account of the Treasury with the Bank of France is always small.

## How Were They to be Paid?

**T**HERE being seven billion of *bons de la defense nationale* falling due every month, it is quite evident that if any large percentage of the holders of those securities demand in any one month or series of months reimbursement in cash, the situation becomes intensely difficult for the Treasury and the Bank of France, which is its financial agent.

Due to a combination of factors, among which were the Bolshevik scare of December last and then the succeeding threats of a capital levy in France, French capital became somewhat scary. In the first two and a half months of this year fifteen billion francs in capital left the country. In the meanwhile prices continued to rise, causing the need for more currency in circulation. The export of capital and the rush on the part of the French public to turn their French securities into pounds and dollar stocks and bonds caused a cashing in of *bons de la defense nationale* in excess of new subscriptions. In January

the amount was 1,700,000,000 francs; in February, 600,000,000, and in March about 800,000,000.

Then what was the situation? At the windows of the Bank of France holders of government securities were demanding cash for their *bons de la defense*. How were they to be paid?

The legal limit of the circulation of the Bank of France had been fixed in 1920 at forty-one billion francs. The legal limit of the advance of the Bank of France to the



A view of the Bank of France

The danger in this is obviously the danger of a panic. Business uneasiness or fear of Socialist taxation would constitute naturally a mild form of panic. Now although the French budget is balanced—that is while the tax receipts for twelve months meet the total expenditures for twelve months—nevertheless the Treasury runs on a very small margin, in fact practically no margin at all. Tax receipts are almost invariably paid out in expenditures the same month

government had been fixed at twenty-two billion francs. The circulation out at the first of the year was well above forty and a half billion. The legal limit of the advance to the state had been reached.

### Concealed the Excess Drawings

IT was at this time that a good many French bankers advised the government to increase the circulation in order to take care of the maturing *bons de la defense nationale* on the ground that while the franc might suffer some from apparent inflation, yet the government would benefit in exchanging non-interest bearing bank notes against interest bearing short term securities. The government, however, took the stand that it would oppose inflation at all costs.

Back in January the Treasury began its weekly overnight borrowings from French banks, to whom it would give government securities which the banks would lock up and then discount their own paper to a similar amount at the Bank of France, turning over the receipts to the government, which placed them to its account in the bank. Also the government resorted to placing *bons de la defense* directly with the Bank of France and devoted the proceeds to meeting its obligations. It thus came about that while the weekly statements of the Bank of France showed the legal limit of advance to the state as within twenty-two billions, as a matter of fact, concealed in the statements of the Bank of France, was the fact that the state was overdrawn some three billion francs.

Up until the middle of March this subterfuge was successful. But little by little banks, and then the public, began to learn what the bank was doing. It was then the regents of the Bank of France asked the government for the increase in circulation to square the situation. Instead of complying, the Herriot government undertook new fiscal reforms to bring in sufficient receipts to enable the government to liquidate its account with the Bank of France without inflation.

However, in the meanwhile the situation of the bank became tighter and tighter. Raising of the discount rate did not stop the calls on it for cash and it found itself obliged to pay out bank notes over and above the legal limit of circulation.

### New Circulation Needed

AT the beginning of April the government proposed to agree to the demand of the Bank of France for new circulation but accompanying it by new and compensating tax measures. The Herriot government, prompted by political motives, insisted that the new circulation was needed for commerce and not for the government. Finance Minister Clementel did not approve of this attitude, and going before the Senate made his now famous speech, stating that it was necessary to increase the circulation to meet the government's obligations to the Bank of France. Herriot, resenting this announcement without mention of compensating tax measures, forced the resignation of Clementel.

In the middle of the government crisis in April the two Houses of Parliament, giving in to pressure of the Bank of France, passed

a bill authorizing the bank to increase its circulation from forty-one to forty-five billions and raising the advance to the state from twenty-two to twenty-six billion francs.

The weekly statement of the Bank of France issued on April 8, showed a circulation of forty-three billion, or two billion above the legal limit, and the bank statement of April 16, after the passage of the bill showed the circulation to be about the same. This means that the bank now has two billion francs to meet further eventualities.

Whether this amount will be sufficient depends, on the one hand, on the state of public confidence in France, which will be reflected in the amount of *bons de la defense* cashed in, and, on the other hand, on the success of the government in raising new taxes which will enable it to decrease the advance of the bank to the state. Caillaux has now been given the job of straightening out the fiscal situation of the Treasury and it is too soon to make predictions.

With seven billion francs worth of *bons de la defense* coming due each month it is quite clear that if any large percentage is turned in for cash further inflation will be needed.

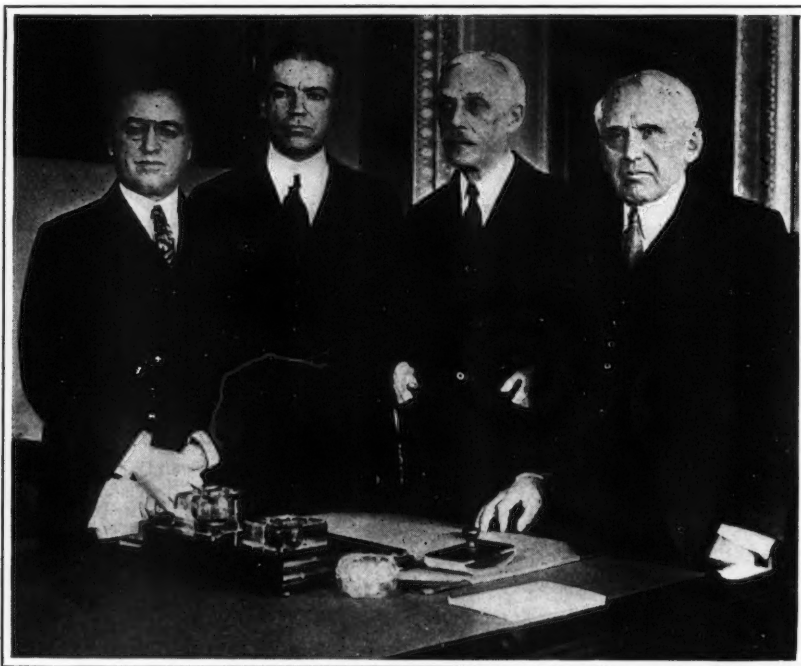
### Not the Same Kind of Inflation

HOWEVER, it is to be emphasized that inflation for the purpose of retiring *bons de la defense* is not the same sort of inflation to which Germany, Russia and Austria resorted, where bank notes were printed to pay the running expenses of the government. For the French budget is balanced and the state is not taking money from the Bank of France to pay its running expenses.

If it is necessary, for example, to issue ten billion francs to retire maturing *bons de la defense nationale*, it is clear that the Treasury thereby saves paying interest on that amount of *bons de la defense nationale*.

While the factor of these short term notes forms an immediate danger to the French Treasury and to the Bank of France, it by no means constitutes the whole of the French financial problem.

With a budget of forty-four billion francs for this year, over nineteen billion francs, or about 60 per cent, goes for debt service without any provision being made for France's foreign debt to England and the United States. The interior debt of the government, which at the end of the war was around one hundred and forty-five billion, has now swollen to two hundred and seventy-eight billion francs bearing various rates of interest. The perpetual and long term debt is one hundred and forty-nine billion. Short term state bonds amount to thirty-seven billion. The floating debt, made up of *bons de la defense nationale*, Treasury bonds, and the advance of the Bank of France, makes up the remainder. Of this amount between twenty and twenty-one billions fall due in 1925. A maturity of nearly half a billion was easily taken care of in February. On the first of July there falls due three and a half billion and the indications are that about one-third of this will be cashed in. The other large maturities come in October and December. The attitude of the holders of these maturing bonds will naturally depend in large part on the national state of mind which, in turn, depends largely on the government's fiscal measures.



The principal representatives of the United States in the prospective refunding of the French debt. Right to left they are Secretary of State Kellogg, Secretary of the Treasury Mellon, Eliot Wadsworth, who recently retired after serving as the first secretary of the Debt Funding Commission, and Garrard B. Winston, the Undersecretary of the Treasury, who succeeds Wadsworth.

### What France Hopes to Get from America

THIS of course does not take into consideration the foreign debt of France, which is largely made up of the debt to England and the United States, which amounts to about three and a half billion dollars owing to America and nearly six hundred million pounds owing to England. Negotiations are now under way between the British and French governments on the English debt which involve the prospect of a very large reduction, and it is after arriving at an arrangement with England that the French will turn their attention to the debt to the United States. It will be a keynote of the French policy to link the payment of France's foreign debt to payments made by Germany on account of reparations. In other words France will seek to have America agree to accept payment by the products of the Dawes Plan. By this move the French wish to obtain not only a certain amount of assurance for themselves, but also the benefit of interesting America more deeply in Germany's execution of the Dawes Plan for reparation payments.

What steps the French government will take towards easing the strain on the budget and relieving itself and the Bank of France of the danger existing in the status of the floating debt cannot now be predicted. Herriot proposed what was a cross between a capital levy of 10 per cent and a forced loan. Due to the opposition of the banks to the capital levy he sought to avoid that term, but it is clear that forcing French holders of acquired wealth to subscribe 10 per cent of their riches to a government issue bearing 3 per cent, sure to sink rapidly below 50 per cent on the open market, in reality amounts to a capital levy. Due to the position of the Senate, which would surely have refused to vote the measure even if it had reached it, the plan died with the fall of the Herriot Cabinet.

### Caillaux Opposed to Capital Levy

IT is true that the new government depends on the Bloc des Gauches in the Chamber which, in turn, depends on the one

hundred and eight votes of the unified Socialists, who are the exponents of the capital levy. But Caillaux, the new finance minister, is opposed to the capital levy. And his projects are understood to relate to a "novation" of the public debt, by which is meant exchanging of French government securities against new bonds bearing a lower rate of interest than the mean interest now being paid. This of course brings the Treasury up against the very feature of the *bons de la defense* which has made them popular; namely, that they constitute nearly liquid capital. If a bank carries its depositors' money in *bons de la defense* maturing in several months and therefore retaining their par value, it is quite apparent that the bankers cannot make the same use of a long term bond which becomes frozen capital. Also there is a danger that the mere announcing of such a plan will cause a rush to dispose of *bons de la defense* which would place the Bank of France in a perilous position. The suggestion has been made to try to meet the situation with an increase of 50 per cent and more in the income tax. However, the great difficulty with the French income tax today is that it is so heavy that many Frenchmen defy it. Whereas the American tax on the first few thousand dollars is 4 per cent, the French tax is 16 per cent, made up of 6 per cent "impot cedulaire" and 10 per cent "impot sur la revenue." It is the opinion of many experts that raising the tax will not produce more revenue. Because Frenchmen do not pay income tax in the same proportion as the Englishman and the American—there being less than 600,000 French people making income tax returns—the opinion prevails with many Englishmen and Americans that the French do not pay taxes. This is a mistaken idea. For while the French do not pay the same per capita tax on a gold basis as Englishmen they pay more than Americans. The ratio has been calculated at fourteen—eleven—eight, as the proportion per capita taxation of Englishmen, Frenchmen and Americans.

THE French budget this year calls for tax payment of thirty-four billion francs. It is not a fair measure of the Frenchman's burden to translate this into dollars

at the current exchange for the franc represents more to the Frenchman, both in relation to his income and to what it will buy, than does 5 cents to an American. Yet it we divide the thirty-four billion by the current exchange we find that Frenchmen are paying in taxes this year to the national government over one billion seven hundred million dollars. Inasmuch as the American government's budget is about three billion dollars for a country with three times the population and ten times the wealth of France, it can readily be seen that the Frenchman is not entirely exempt from taxation. Were the American budget between five and six billion it would be comparable on a gold basis to the amount of tax paid this year by Frenchmen, and even then Frenchmen would feel the burden more heavily. In fact, the one great distinction between American taxes and French taxes is that the French system of paying larger indirect taxes tends to let the rich man off to the detriment of the middle classes; for while in America a man is taxed largely on what he earns, in France he is taxed generally on what he spends.

### Source of the Trouble

THE truth of the matter is that the French government is in financial difficulties today because Germany has not paid what it was supposed she would pay for repairing the damage she did in northern France. If the French government had not borrowed the ninety billion francs spent on reconstruction the French government today would not have its floating debt in *bons de la defense nationale*, and would in all probability be able not only to meet its running expenses called for in its war debt, but would be in a position to pay something to England and America. Whether or not the French governments of 1919, '20, '21 and '22 erred in placing too great hopes on German payment is a matter for debate. Your Frenchman will tell you that if he had not incurred his present indebtedness for reconstruction, if he had allowed the devastated regions to lie in the ruins of their devastation, France would have been condemned by all the world as an incompetent.

### Foreign Trade

THE fiscal year 1925, which ends on June 30, will show the foreign commerce of the United States over 8½ billion dollars against 7¾ billions in 1924 and less than 6½ billions in 1922, all of these figures relating to fiscal years. This increase of more than two billion dollars since 1922, says the Trade Record of the National City Bank of New York, is about equally divided between imports and exports. Imports of the fiscal year 1925 will exceed those of 1922 by about one billion dollars and the exports will exceed those of 1922 by about \$1,200,000,000.

The excess of exports over imports, or "favorable trade balance" as it is sometimes called, is likely to be about 1½ billion dollars against 1 billion in 1922 and a little more than half a billion in 1913, the year

preceding the World War. Prior to the opening of the war the excess of exports over imports never reached the billion dollar line, the largest pre-war "favorable balance,"

that of 1908, having been but \$666,000,000, or about one-half as much as the prospective "favorable balance" of the fiscal year which is about to end.

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 TO CENTRAL UNION TRUST COMPANY  
 1-191 OF NEW YORK  
 Dillon Read & Co.

A reproduction of the check issued by Dillon, Read and Company to the Dodge Brothers Automobile Company as cash payment for the controlling interest.



## Pictorial Comment on the World's Passing Events



"The President Is Right"—Williams in the Los Angeles Examiner



"Flirtation"—Murphy in the San Francisco Examiner



"Won't Take His Medicine"—Murphy in the Chicago Herald and Examiner



"The Millstone"—Orr in the Chicago Tribune



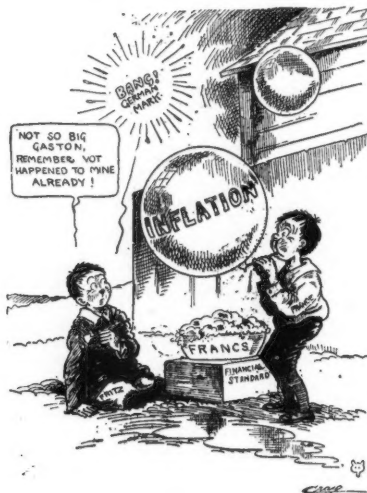
"Change of Treatment"—Rodger in the San Francisco Bulletin



"World Ties of American Enterprise"—in the Newark Evening News



"Prosperity Dawns Again for Europe"—McKay in the Hartford Times



"Blowing Bubbles"—Fox in the Rochester Democrat and Chronicle



"Stop, Look and Listen!"—Cargill in the Springfield State Register

# Has the Time Come for World Currency Reform?

By MITCHELL IVES

**Devaluation of European Money Units May Be Undertaken Now That Currencies Are More or Less Stabilized with Reference To Gold. International Conference Being Discussed. Inter-Allied Debts No Barrier to Reform. Britain's Action Helps.**

EUROPE has passed the half-way station in the return to money normalcy. Her currencies, while not yet all redeemable in gold, have been stabilized with reference to gold. Great Britain and her colonies have returned to the gold standard, and Holland has followed the lead. And, in the judgment of some thoughtful observers, the time has come for the full reform of the currencies, the creation of a common unit and the complete shift back to the gold standard.

Europe today has nearly three times as many different units of currency as she had in the pre-war years. There has been such a woeful shrinkage in the values of the French franc, the lira, and the Belgian franc and other units that once stood in high repute that there has long been talk of fixing new pars for them. Even before Great Britain determined to go back to a gold basis, there were at least twelve of the European countries which had advanced to the stage where their currencies had been stabilized with reference to gold, so that they had a definite purchasing power in gold.

The more acute sufferings of Europe, due to bad money, are past; for her exchanges, which hit the chutes and fluctuated in such a disquieting fashion during the past few years, have been far less inclined to go up and down. The action taken by Great Britain will tend to make conditions even more stable.

## Senate Commission Reports

THERE can be no doubt but that at last Europe is settling down and turning in the direction of normalcy. Indeed the progress made even before Great Britain took the momentous step so enheartened a commission appointed by the United States Senate to study the problem of gold and silver that it has recommended the assembling of an international currency conference to bring about a far-reaching reform, to hasten the return of European nations to the gold standard and to consider steps leading to the long cherished ideal—the creation of a unit of currency common to all countries.

Senator Tasker L. Oddie of Nevada advocates the convening of such a conference and urges that the question receive early official consideration. While he would be glad to see the United States take the initiative in this movement, he does not feel

that this is necessarily essential. The present state of flux in exchanges offers, he believes, a propitious time to bring about a great reform in the world of currency. The United States, Senator Oddie maintains, has both a direct and indirect interest in the proposal. With the world on a gold basis, trade will have stable exchange rates that will permit Europe to purchase more in American products and pay her debts to the United States. As the leading gold-standard country, the United States should act to protect its own currency for, if the European nations should abandon permanently the gold standard, the consequences to this country would be serious with the almost inevitable fall in the present value of gold and the violent readjustments in the structure of prices that would follow in the wake. In short, the rehabilitation of Europe means so much to the United States that it could well afford to take the lead in bringing about a far reaching reform in currency, according to Senator Oddie.

President Coolidge has given no intimation that the United States will sponsor such a conference, although it is generally assumed that, sooner or later, some nation must take the lead. As far back as 1922 when the economic conference was held at Genoa, the need for currency reformation was observed. The financial section of this conference headed by the British Chancellor of the Exchequer, Sir Robert Horne, recommended that the central banks of issue hold a parley to consider what reforms should be made. At Genoa the American government did not participate actively but was represented by unofficial observers. While there has been no official expression on Senator Oddie's latest proposal it is understood that the United States does not regard its interest as sufficiently great to warrant calling the European nations around the conference table to bring about changes that more directly affect and concern them. Besides, it is feared that the inter-allied debt question will be tied up with the other considerations and the position of the Coolidge administration is that the debts must be regarded as independent of reparations, currency reform or any other matter. This position is presented in the report of the Senate Commission.

## Europe Is Ready Now

IN the opinion of Dr. John Parke Young, the economist whose studies of the foreign currency and exchange situation formed

the basis of the commission's recommendations, the present time is particularly opportune for the convening of a conference, to effect currency reform, involving an immediate return to the gold standard and the abolition of artificial restrictions.

He points out that Austria, Germany, Poland, Hungary, Czechoslovakia, Russia, Latvia, Lithuania, Finland, Sweden, Holland and Switzerland have stabilized their currencies with reference to gold and maintains that only by the complete introduction of the gold standard can this de facto stabilization be made permanent.

"The introduction of the gold standard at the present time is possible in practically all European countries," Dr. Young states. "Inflation as a means of meeting budgetary deficits has practically ceased, or doubtless soon will cease, and relative price stability is being attained in almost all countries. In order to return to gold, the first step is internal stabilization of prices, which then leads automatically to relative stability in exchange rates. When exchange rates are stable with reference to gold—as has been increasingly the case recently—the maintenance of this stable value and the shift to the gold basis involves no great difficulties. The gradual restoration of complete convertibility of notes and free importation and exportation of gold is the chief requirement.

"A stable currency does not depend upon a 'favorable' or 'unfavorable' balance of trade as evidenced by the experience of many countries before the war. While the economic obstacles in the way of immediate return to the gold basis are not generally very serious, several countries are inclined to delay, now that the worst phase of currency disorders has passed. Countries which have experienced extreme depreciation and economic chaos have been the first to show that stabilization with reference to gold is now possible.

## Sentiment for Devaluation

"THE difficulties and disadvantages of restoring a depreciated currency unit to its pre-war level are so great that revaluation—stabilization at approximately the present low level—is well nigh essential except in the case of countries which are already practically at par. Raising currencies to their pre-war pars is undesirable even if it were practical, since this could not undo the evil already done but would merely add new evils. Sentiment in Europe opposing de-

valuation has become less, and although governments do not desire to accept formally or to discuss devaluation until reform is undertaken, government officials in general personally realize the necessity of devaluation. Banking and business interests are almost wholly in favor of devaluation."

Countries, which at the present time are controlling fluctuations in exchange rates by means of foreign credits, in essence are already stabilizing the unit in terms of gold and redeeming it in gold drafts.

### Question of Gold Reserves

**G**REAT BRITAIN, Switzerland and Holland for some time have had gold reserves that were adequate enough to warrant the restoration of the gold standard.

In countries like Austria, Czechoslovakia, Hungary, Poland and Germany, where a fixed relation between the unit and gold has already been maintained for some time, it is asserted that this relation could be made permanent by permitting the free movement of gold and establishing the free redemption in gold or gold drafts. However, it is admitted that a sufficient reserve must be set up for use. Then, too, it is recognized that the size of the present unit may be too small but this may be used as a fraction of a new and larger unit.

While the European countries now possess fairly large gold reserves or gold credits, Dr. Young foresees the probable need of additional amounts in most cases, as it would be most unfortunate for any country to attempt the gold standard and not have sufficient gold or gold credits to maintain it. To meet this need it is proposed that the various nations follow the lead of Great Britain and Germany and arrange for the creation of reserves by borrowing abroad. These credits, if desired, could then be converted into gold and imported into the home country, as was done by Germany.

"The amount of such borrowing that might be necessary would not be great," Dr. Young states, "and the borrowing would not entail any very great burdens since the gold borrowed could be paid to the central bank at home, reducing the government debt or, if no debt existed, establishing a credit which could be used to reduce other debts or for various purposes. The central bank in this way would be supplied with gold with which to redeem its notes and deposits."

### The Question of Devaluation

**T**HE reform of currencies involving the discarding of present units and introducing a new unit uniform for all countries will not be a very difficult change in his opinion. One of its strongest points is that the troublesome question of devaluation may thus be avoided.

"One of the chief factors deterring certain countries from returning to the gold standard is the hesitancy to face the necessity of devaluation," Dr. Young asserts.

"By devaluation is meant the stabilization of the currency at approximately its present low value rather than the restoration of its pre-war value. Where depreciation has been extreme little objection to devaluation is found. But where depreciation has not been extreme, and where a complete collapse has not taken place, a certain amount of opposition exists to making the present value per-

manent. In countries like France, Italy and Belgium where depreciation is a considerable percentage of the gold value, government officials in general recognize that devaluation is necessary.

"Governments do not desire to make public announcements of this fact until the time for reform approaches, due to political difficulties and opposition which might be needlessly aroused. This hesitancy, however, to approach the question of devaluation, and refusal on the part of many individuals to recognize the necessity for devaluation, is one of the chief practical obstacles to currency reform.

"The slight advantages of raising the unit to par, the argument of sentiment, that the unit has long represented a certain amount of gold, and the argument that contracts still exist which were made in terms of the old unit, are completely overshadowed by the great evils bound to spring from such action. The difficulty, if not the impossibility, of raising the value of the unit, and the great injustice to the people if such were done, since wages, prices and most contracts are now based on the present value of the unit, preclude a program of returning to the old par. Furthermore, the depressing effect upon business, resulting unemployment, and the increase in the burden of the government debt make appreciation of the unit out of the question. It makes little difference what value prevails so long as the value is constant; stability is the desideratum and appreciation is just as much an evil as depreciation.

### The Way Out

**"I**F governments desire to avoid the appearance of devaluation they can do so by the adoption of an entirely new gold unit. This course has much to be said in its favor on other grounds.

"The methods of returning to the gold basis offer no insurmountable difficulties. Where devaluation is necessary the first step is to determine the present value of the unit in terms of gold. In doing this, exchange rates on gold standard countries may be used as an index. Another index is the value expressed in the purchasing power parity of the paper unit with a gold unit, which is the value determined on the basis of the relation between the price level in the paper standard country with that in gold standard countries. A further guide is a comparison of the gold value of the total circulation divided by the number of currency units, with the total gold value of the circulation in normal times divided by the number of units at that time. This latter does not give so much the present gold value of the unit as it does the value that probably would result, in view of existing circulation, when conditions become more normal, if matters were left to themselves. The different methods all yield more or less similar results.

"As a preliminary to returning to the gold standard, it may be desirable that countries establish in fact a stable relationship between the currency unit and gold. This, while not essential, can be done most easily if the price level is regulated so that the purchasing power of the unit remains in a more or less constant relationship to the purchasing power of gold. This adjustment takes place automatically if the gold stand-

ard functions freely, but where the gold standard does not prevail the adjustment between paper prices and gold prices can be accomplished through contracting or expanding currency and credit, according to the movements of exchange rates and index numbers of prices.

"European price levels are now more stable than they have been for several years, and at the same time the value of gold, as expressed by the purchasing power of the dollar in the United States, is relatively stable, so that the formal establishment of a fixed relationship between the paper units and gold, and then the redemption of the units in gold or the equivalent, can be accomplished with no great difficulty, assuming, of course, that countries are willing to accept approximately the present gold value of the unit and do not attempt to return to the old value, which now has little significance. Countries like France, Belgium, Italy, Norway and Denmark might well adopt this method of currency reform.

"When the exact gold value at which the unit is to be stabilized has been determined, all that is necessary to make this value effective is that the government announce that after a certain date it will redeem the unit at this value in gold or in drafts on a gold standard country. The government in the meantime must secure gold or gold credits with which to redeem when the time comes. If the gold value selected should prove to be too high or too low in view of the underlying situation, adjustment would soon take place without great difficulty through price movements, movements which would be no greater than those which are now being experienced, provided, of course, the effort had been to select a value in harmony with exchange rates and purchasing power parities."

### Upsetting Popular Ideas

**T**HE events of the past year or two have upset the popular theory that currency stability cannot be obtained as long as conditions are disturbed, credit weak and trade poor, according to Dr. Young. The cases of Austria, Germany, Hungary and Poland have shown that a stable currency can be maintained in spite of chaotic economic and political conditions. It is a notable fact that countries which have been most disturbed have been the first to restore their currencies to a relatively sound condition. The moral of this being, according to the investigator, that the other countries should realize that reform can be accomplished immediately and without waiting for various events to transpire.

The two largest barriers that loom up to block currency reform are the reluctance of nations to revalue their money, and the question of intergovernmental debts.

But, in the opinion of Dr. Young, there is no real justification for their existence as hindrances.

"It is often said that currency reform cannot take place until the debt question is settled and the countries know what their foreign payments are to be," he continues. "Desirable as it is to have the debt question settled, unsettlement does not preclude currency reform. If the debt question were settled, countries still would not know what

(Continued on page 713)



# How Fast Does Our Income Grow?

By REUBEN A. LEWIS, JR.

**Gain in Production Outstrips the Increase in Population and the National Income Grows at the Rate of 2 Per Cent Annually. Dr. King Tells Where the Dollars Go. We Save 16 Per Cent of What We Earn. Farmer's Share Fluctuates Widely.**

**W**ITH the passing of each year, the United States will have nearly a billion and a half dollars more income to spend.

For the American people, the free spenders of the fattest per capita income in the world, are increasing their income at the rate of 2 per cent a year, according to the estimates of Willford I. King, who probably knows as much about the productivity of the United States as anyone who studies the habits of other people's money. While it will not be possible to figure by approved rules what the national income in 1924 was before a year or more elapses, it is estimated roughly that the income was not less than 70 billion dollars last year.

And, strangely enough, the income is not only showing a steady upward trend in the number of dollars that go into the average man's strongbox—it is buying more and more in goods and services that supply our human wants even at high prices. So the man who manufactures clothing or automobiles, the farmer who tills the soil to provide food for the millions or the producer of thrilling amusement may lay his plans for the future with the comforting knowledge that the American people are going to have even more to spend.

## How It Started

**T**HERE is an interesting story behind this matter of figuring out the total annual income of the American people.

The work of estimating how much it amounts to and who gets it grew out of the idea of getting the leaders on both sides of the economic fence to agree on the primary facts.

It used to be popular for the champion of the horny-handed sons of toil to mount a soapbox and deplore—in the most vociferous tones—the “fact” that capital, as personified by the bloated manufacturer, got the lion's share of the moneyed income of the country while the laborer, the man who created the wealth, got virtually none. Is the system right, they argued, when the man who created the wealth got one-tenth and the capitalist gobbled up the other nine-tenths?

On the other side was the more dignified, but none the less prejudiced, “hard-boiled” capitalist who bemoaned the fact that the “outrageous” wages paid to labor were bankrupting the industries of the nation, and that, unless wages could be “deflated,” the country was faced with ruin.

The havoc wrought by the conflict between capital and labor in Russia, and the spread throughout the world of economic discontent, led a group of thoughtful Ameri-

cans to ponder the question of whether there was any way to safeguard our own nation against such economic warfare. These men believed that the leaders of both labor and capital were reasonable men, but that both were ignorant of many of the true facts. Certainly neither side would desire to participate in an economic struggle in which there was a heavy chance of loss but little to gain for either side.

## Getting the Facts

**T**HE problem was how to find the truth and how to get the findings accepted by both sides. If the results of an unbiased investigation should show that the workers were getting just about as much under the capitalistic order as they could under a regime of communism, there would be no incentive to agitate for such a change in our system. On the other hand, if it were made clear that high earnings were received by but a small fraction of all employees, there would be little reason for demanding wholesale wage cuts.

It was agreed that there would be more light and less heat and that far-reaching benefits would result if a non-partisan, impartial estimate might be made. The upshot of it all was the undertaking of this work by the National Bureau of Economic Research, an organization with representative directors from the fields of science, labor, capital, farmers, bankers and other diverse groups to review and approve the findings.

Because he had been concentrating on the subject of income since 1913, when he aided Dr. Richard Ely of the University of Wisconsin by conducting investigations in this field and two years later had published the most comprehensive book on the income of the United States, Dr. King's services were enlisted in 1920 to take a major part in this work. He was responsible for the estimate of national income based on the value product of the different industries, which appeared in the two thick volumes printed two years later setting forth the findings of the Bureau. So when Dr. King says anything about income, he ought to know what he is talking about.

## Exploding Popular Claims

**S**INCE that time Dr. King has dug deeply into the whole question of income and has unearthed some highly interesting things.

“The investigation blasted the claim that the worker got but a minor fraction of the industries' income,” he said, discussing

the result of this inquiry. “It was found that in large scale industries such as manufacturing, mining and transportation about 65 per cent of the income was paid out to manual and clerical workers, while about 5 per cent was consumed by the salaries of officials. This left 30 per cent to the stock and bondholders and the owners of leased property.

“To keep up with the onward march of industry in the United States under the individualistic system, it is necessary for the industries to lay aside about 10 per cent annually for new equipment and betterments—to hold the place they have attained in the competition for business. Thus, from the 30 per cent share of the owners, this percentage must be deducted, leaving one-fifth of the whole as a payment for the use of capital and for disbursement to the owners.

“Considering how the income from industries is distributed, it may be seen that, with production as at present, of the total income not over 20 per cent more than is now paid out to the workers could be distributed to them under any system—unless one should be devised that would make no provision for new equipment and expansion. This shows just what slight gain the American workman would obtain by a departure from our present social order. There would not be even 20 per cent if there should be a decrease in the efficiency with which the industries are run.”

On the other hand, the results of the study show that only a small fraction of the workers are highly paid. Dr. Frederick R. Macaulay of the bureau's staff estimates, in fact, that of all persons in the United States working for gain, half receive less than \$1,200 per year and 90 per cent less than \$2,400 per year.

## What Governs Income

**T**HE best indications of the trend of income are afforded by the volume of production and the level of prices. When production is large, the national income is large. When production shrinks, there is a corresponding shrinkage in the income that the average American has to spend. So the best indicator of income is production, assuming that the level of commodity prices does not vary much.

Taken over a number of years, it has been found that production in the United States has been increasing at the rate of about 4 per cent annually. Over a long range it has been shown that the increase was between 3.2 per cent and 4.3 per cent. The population of this country is increasing

about 2 per cent annually. From this, and other carefully considered data, it is estimated by Dr. King that the per capita income is increasing roughly about 2 per cent every year.

Taking the dollar as a yardstick, this means that income is mounting a billion dollars and a half annually. Of course, there are ups and downs year by year but these cycles do not upset the general upward trend of income. It requires months to gather the data for a single year, upon which a reasonably accurate estimate of income for the American people can be based. Although the United States stands first among the nations of the world in the richness of statistical information, there are still real gaps in the statistical fabric. For example, the data on the income from merchandising are incomplete and fragmentary, so the probable error in the estimates of income growing out of merchandising are larger than might be desired. In many other fields, however, it is not nearly so difficult an undertaking to estimate the income.

The latest available estimate of the income in the United States made by the National Bureau of Economic Research is for the year 1919. From its preliminary figures it was estimated that the income amounted to \$66,800,000,000. For the preceding year it was fixed at 62 billion dollars and 54.1 billions for the year 1917.

### National Income Varies

**W**ITHIN the next few months the Bureau is planning to publish its estimates for 1920 and 1921. While there has been no indication of what the final figures will show, it may be recalled that production during 1920 was large and the industries hummed during this period of the post-war boom. In 1921 there was a great drop in production and the farmer was sorely hit. The year of 1922 saw a continuation of this situation, but there was a notable increase in the activity of the manufacturing industries in 1923. During the past year the income of the farmer, due to the prevalence of better prices for farm products, was appreciably larger than for 1923 but the industrial production was not so great as for the preceding year.

There has been one well known economist to venture a "computation" of the national income for the past three years. He is Dr. Benjamin M. Anderson, Jr., the economist of the Chase National Bank of New York. He has made an "indirect computation" of the income based on an index of variation" which places the income for 1922 at \$49,800,000,000, 1923 at \$57,700,000,000 and that of 1924 at \$53,600,000,000. Dr. Anderson used the estimate of the National Bureau of Economic Research for 1919 as the base of his computation. He steered clear of the years of 1920 and 1921, confessing that they were too abnormal to risk a computation.

That the computations of the economist and the estimates of the bureau will vary widely is indicated by the "rough estimate" given by Dr. King.

In all likelihood the income for 1924 was approximately as great as the nation ever had, in the opinion of Dr. King.

### How Income Is Spent

**B**UT where does the income go? How much is saved?

It is estimated that we save about 16 per cent of the annual income. Included in this percentage are the savings of business concerns. A survey shows that the savings of business account for a little more than half of the income that is salted away while the individual puts aside the remainder. A careful study for the period 1909-1918 revealed this 16 per cent savings, and, in the opinion of Dr. King, there has been no material change in the habits of the people during more recent years, so it may be assumed that about this part of the income is husbanded from year to year.

While the total savings deposits in the banks of the country have shown healthy increases during the past few years, Dr. King says that the bankers are likely to be deceived, as their figures are in the terms of dollars. To get a fair idea of the trend of savings, the banker must consider the relation of the dollar to the price levels; then it will be possible to arrive at an accurate idea of what part of the income is being saved.

Food, according to Dr. King, accounts for the greatest part of the average man's expenditure of the remaining \$84 out of each \$100 of income. Roughly, one-fourth of what is spent goes for food, one-sixth for housing, and one-seventh for clothing, jewelry and personal adornment. One-ninth is spent on automobiles, 1-20 for house furnishings and 1-25 for fuel and light. This accounts for four-fifths of the outgoing dollars. The other fifth covers traveling, hotel bills, servant hire, amusement, education, pay for services of doctors, dentists and other items in the budget.

### \$600 Per Capita Income

**E**ACH person in the United States has around \$600 a year of income, the studies indicate. This includes children, women and all persons and represents the per capita income. However, the average is much higher if only those persons engaged in gainful occupations are considered, as the mean income of the people who earn money is \$1,750 annually.

The fortune of the farmer has been uneven during recent years and the part of the national income that has gone to the tillers of the soil has fluctuated widely. In the best years the income of the farmer has represented as much as one-fifth of the national total. In times of agricultural depression it has shrunk to one-tenth.

The individual income tax returns filed with the Federal government have indicated in a measure the extent to which the national income is affected by good and bad times. But it should be remembered that these returns give a picture of only a fraction of the American income. For the year of 1922 there were about seven million returns, reporting a net income of 28 billion dollars. Thus these figures reflect the state of fortune of the well-to-do class but do not show how much income the majority of the vast army of gainfully occupied—the forty million people who were working for themselves or for others—had.

While the individual saves nearly half of the total, this is no infallible indication of

the national savings because the dollars that are put in the bank may be withdrawn and used in enterprises that add nothing to the income or wealth of the country. For example, the dollars employed to drill oil wells that turn out dry holes are sheer waste.

Wealth, as contrasted with income, is greatly affected by sentiment and psychology. The Bureau of the Census has estimated that the national wealth of the country near the end of 1922 ranged around \$321,000,000,000—of which nearly 60 per cent was real estate. The value of a piece of land is affected by what is in the mind of the owner and in the minds of the business world. In good times the owner sets a higher value upon it than in hard times. Likewise stocks and bonds vary in value with the ups and downs of the market, which is governed in a large measure by what people think the future holds. So it is with other forms of wealth. But income is different.

There is a more or less constant relation between the credit structure and the size of the national income, but bank accommodation is not quite keeping pace with the growth in the income. When the lowered purchasing power of loans and deposits in each bank is considered, it is clear that the average bank can finance less business than it could ten years ago.

### A Likely Merger

(Continued from page 670)

solidations have so far been chiefly confined to the Southwest. In fact, the delay in merging the leading systems of the country into groups is beginning to have a political reaction. Members of Congress are asking why more has not been accomplished, and why perfectly logical groupings should not go forward. Perhaps one explanation is the high level of prices for the stocks of secondary roads that has been established since the November elections. It is also pointed out that one purpose of the consolidations is to unite weak roads with strong ones, thereby benefiting the shipper, who is limited to the former for his freight facilities and, at the same time, preventing the frequent crises among roads of poor credit. Most of the mergers arranged to date have been between lines of about equal standing. There have been some opponents to consolidations on the theory that competition would be destroyed by them. It is from this standpoint that Senator Capper of Kansas has interposed objection to the merger of the Kansas City Southern with the Missouri-Kansas-Texas and possibly with the Frisco.

In the April number of the JOURNAL, a parallel was drawn between the Chicago, Milwaukee and St. Paul and the Virginian Railway. Toward the end of the month it was announced that the Virginian had been leased for a period of 999 years to the Norfolk and Western, which is, in turn, controlled by the Pennsylvania Railroad. Thus another step has been taken in the movement toward unification in the East and one that may have great strategic importance and help to remove the impasse that has developed in the so-called "four system" plan of consolidating the trunk line carriers.

# What Power Development Would Do for Farms in One State

By OWEN D. YOUNG

Chairman, Board of Directors, General Electric Company

**An Impressive Word Picture of the Great Gains to Business and Agriculture Which Might Be Realized by the Electrification of the Natural Water Powers. An Economic Problem the Football of Politics. Drudgery Must Be Banished from Farms.**

**A**S a social problem life on the farm, and particularly in the farmhouses, must be relieved of its exhausting drudgery through the application of electric power, just as we have relieved its desolating lonesomeness by the telephone, the automobile, the moving picture and, most of all, by the radio.

The farm can be and is being made the best of all places in the world to live. The business of farming must be made to yield profits commensurate with other business. I welcome that Monday morning when the electrically driven milking machine shall have milked the cows; the electrically driven separator shall have produced the cream; the electrically driven churn shall have made the butter. At the same time in the house, the electrically driven washing machine shall be automatically doing its work while breakfast goes on and we shall have sunny, brighter and happy Mondays in place of the old blue ones.

"How to Electrify the Farm" can be solved only by answering four other questions: What can the farmer do? What can the power company do? What can the manufacturer do? What can the state do?

## Put It Into the Colleges

**A**BOVE all, the farmer must be interested in his business. He must be open-minded and hungry to find new methods by which he may make his undertaking both more pleasant and more profitable. Pride in the advancement of his business, and the initiative to advance, are essential. Leadership must come from the men who own and live on their farms and take pride in their business. The farmers should insist upon the study of electrification by their agricultural schools and colleges, by their farm organizations, and require a constant and unending publicity of the results of such studies. They should welcome study by the power companies and the manufacturing companies, and should cooperate with them to work out practical plans to get effective results. In each community, they should endeavor to develop a sentiment in favor of a power supply and general agreement to take the service in order that rights of way may be economically obtained, and the cost of service distributed over the largest possible number of customers. Both the automobile and radio are later developments than electric light and power. They have

had wide sale among farmers. It is probably explained by the fact that these may be individually bought, whereas electric service requires cooperative group action. The farmer is too much of an individualist to be a good cooperator. He must learn to cooperate if he is to get electric service. I ask the farmer to be open-minded as to new methods and to show a readiness to abandon the old. I ask him to learn to cooperate with his neighbors for their mutual benefit, as well as to act individually on his own account. I ask him to exert both economic effort and his political influence to create such favorable conditions for the supply of electric service as to insure proper results.

The power company can show such interest in the study of the needs of the farmer as a potential customer as it has heretofore done so effectively with reference to industrial and commercial customers. When the great hammers of a steel works needed power, the electric power man was there with his motor and his wire. When the

coal mines were using mules to haul the coal to the surface, he was there with his electric locomotive, his elevator and his wire, and he put the poor mule out of business. When the textile and other similar mills were full of belts and shafting, impairing light, creating noise and endangering life, he was there to relieve the situation with his individual motor and his wire. When the bake shop needed ovens, he was there with his heating devices and his wire. When the stores needed light, he was there with his highly developed specialized lamps and his wire, but when the cows were to be milked, when milk was to be separated, when the cream was to be churned, when the curd was to be cut, when silos were to be filled, when grinding machines were to be run, unfortunately the electric power company man was not there with his motor and his wire. He has been largely interested in serving these other larger consumers in more concentrated areas. Having made such progress in these other fields, the time has come when they should now give special attention and study to agricultural problems and to ways and means of furnishing agricultural service.

## Politics and Economics

*"THE people of the State of New York have permitted this great economic question to become a political football. One would think that all the people of the state would demand such a simple and desirable development. When gold is discovered in Alaska the front pages of the newspapers are filled, and thousands of men from all countries rush to dig it out and increase their wealth. Yet here we let values larger than all the gold in the world run to waste. These we could conserve for the benefit of the people of the state—for the farmers in better markets; for the workmen in better wages; for the industries in larger and more adequate power; for the railroads in better transportation."*—OWEN D. YOUNG.

## Agricultural Departments in Power Companies

**J**UST as the electric light and power companies now have industrial departments, they should, in the future, have agricultural departments. These departments should be in the hands of men familiar not only with electricity, but with farming. They should be in close touch with the agricultural schools and colleges.

Twenty-five years ago the light and power companies did a local business in each municipality. A generating station suited to the size of the community in which the franchise was granted, and a distributing system adequate to cover its needs was a power company. Within that community, it was their privilege and their obligation to supply service to its citizens. Each individual service might not be wholly profitable, but if the earnings from the community as a whole showed a fair return on the capital invested there, the power company was satisfied. Today a change has occurred in that business. The art has developed and the industry has extended with the art. It has been found that it is in the interest of the industry as well as of





Courtesy of the New York Edison Company

*The skyline of New York at night viewed from Brooklyn. The two illuminated towers are those of the Singer building and the famous Woolworth Building. Suggestive of the market for electricity.*

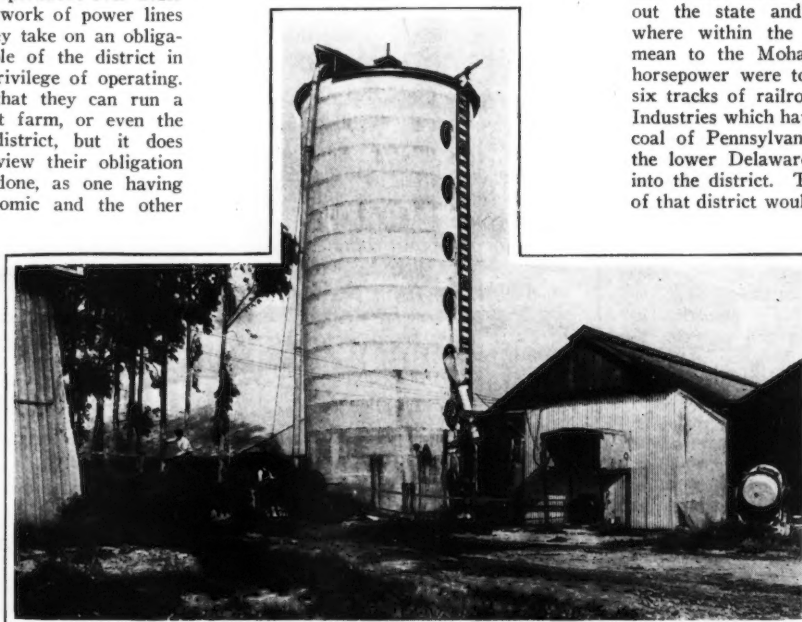
the community to have great central power stations, favorably located, supplying a large territorial district comprised of many communities, in place of the small individual plants for each community. The cost of power supply is reduced through these larger and more economic generating units. It has been found of advantage to the power companies to diversify the load by the different uses to which power is put in different communities at different times of the day. This, too, is of advantage to the power companies in that it makes their investment more productive. When, however, great districts are served by a single power company, when great power transmission lines are run through rural communities in order to connect one city with another, when the farms and small villages find that they cannot tap these lines for service which run directly by their door, they begin to ask and, in my judgment, properly ask why, if they are a part of this great integrated power district, they should not have their service, too? Power companies must remember that when they extend their operations over wider areas and put their network of power lines over large districts, they take on an obligation to serve the people of the district in which they have the privilege of operating. This does not mean that they can run a service line to the last farm, or even the last village in that district, but it does mean that they must view their obligation as they have always done, as one having two aspects, one economic and the other social. The company must neither ride the economic hobby to the point where its service is not generally available in the community, nor, on the other hand, can it ride the social hobby as some loud-speaking and visionary persons outside of the industry urge, to the point of financial bankruptcy.

The manufacturer is subject to the indictment of want of interest. He has sought to apply electricity to everything

in the world, except the farm, but he has not yet met by sufficient expenditure of energy or money the problem of the farmer. Without electrical machinery adapted to farm use, the farmer cannot extend the use of electricity to his profit. Unless he can extend to his profit, he will not use it, and unless he becomes a substantial consumer of power, it will be economically impossible for the power companies to supply the service. Therefore, the manufacturing companies must endeavor to develop these agricultural applications. The farmer must be open-minded enough to use them, and if these two things are done, the power companies, I am sure, can and will provide the lines.

### **Loss to Business and Farmers in New York**

**W**HAT can the state do? Nowhere else in the world are there such resources of water power contiguous to so great a market as in the State of New York.



*Filling a silo by electricity.*

The God-given storage of the Great Lakes and the drainage area of half a continent is collecting water and equalizing its flow over the falls of Niagara and down the rapids of the St. Lawrence, all for the economic benefit of the State of New York. All we have to do is to take advantage of it. Nature has done her share. Relatively small developments have been made. Millions of horsepower run to waste every year. This waste takes place, not because the electrical art and industry cannot harness these great powers; nor because they are too timid to try. They have sought and are seeking the opportunity to develop these powers, but as yet no adequate permits have been given. In addition to the great powers on the boundary streams, which are capable of carrying base load operations of the state, we have smaller powers in the Adirondacks, on the Genesee and on the Delaware, which, with adequate storage, could be developed to carry the peak loads which occur at different hours during the day. These powers can be laid down on great bus bars throughout the state and made available everywhere within the state. What would it mean to the Mohawk Valley if a million horsepower were to be laid down along its six tracks of railroad and the barge canal? Industries which have been seeking the cheap coal of Pennsylvania and the waterway of the lower Delaware, would find their way into the district. The increasing population of that district would enlarge the market for all the farms in the state. They would become more valuable instead of becoming less valuable. Our industries would be largely increased instead of standing more or less stationary. Still the power which is necessary to do this job runs to waste because the people of the state of New York have permitted this great economic question to become a political football. One would think that all the people of

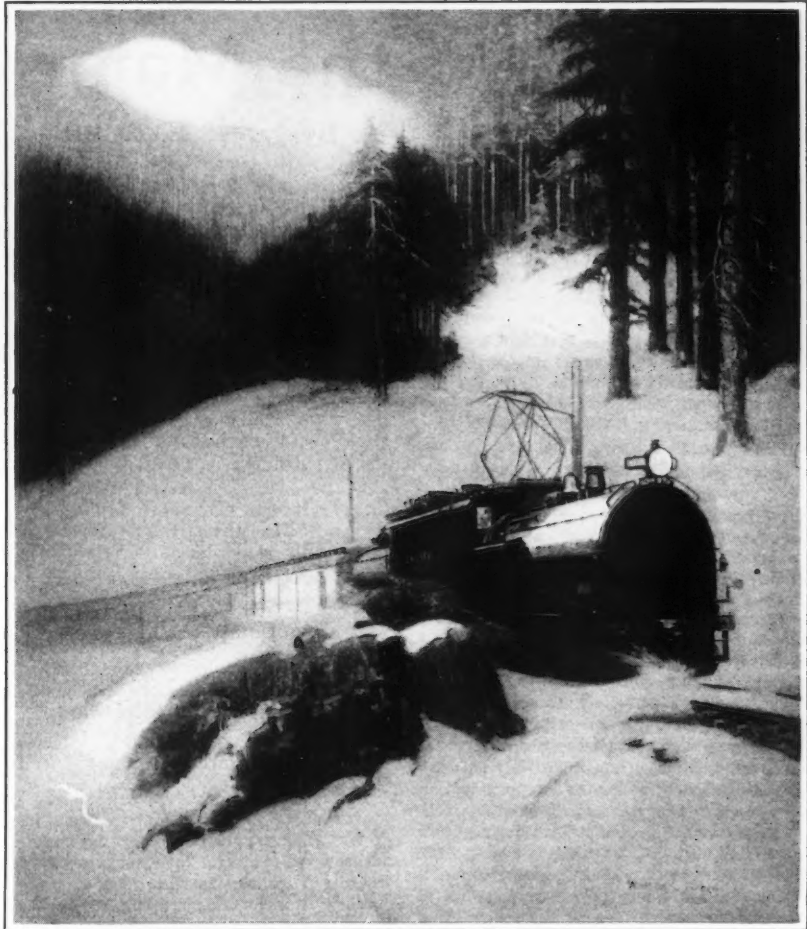
the state would demand such a simple and desirable development. When gold is discovered in Alaska the front pages of the newspapers are filled and thousands of men from all countries rush to dig it out and increase their wealth. Yet here we let values larger than all the gold in the world run to waste. These we could conserve for the benefit of the people of the state—for the farmers in better markets; for the workmen in better wages; for the industries in larger and more adequate power; for the railroads in better transportation.

What are the slogans which mislead us? One is that the grasping power company is trying to destroy the scenic beauty of Niagara Falls, and yet the latest studies show that, in view of the corrosion, scientific handling of the Falls must be had in order to preserve their beauty, and that it may be had consistent with great additional power development there.

### Destruction of the Adirondacks

ANOTHER slogan is the destruction of the Adirondack forest—the playground for the people. I yield to no one in my love for the Adirondacks and in my desire to preserve them. I would not impair the beauty of that great playground to develop power, nor would I permit any people having special interests, whether they be political or otherwise, to prevent the adequate use of these powers for the benefit of all the people of the state under a visionary and unfounded cry of forest destruction. Are we so incompetent in this state that we cannot develop plans to conserve and use the waters of that great watershed for the benefit of all the people of the state without destroying or impairing in the least the beauty and the development of that great forest? Personally, I am sure we can.

And, finally, the most effective slogan of all—the power trust is trying to steal these natural resources for its own benefit and take them away from the people. If there be a power trust, which I deny, most people would admit that I am competent to speak about it. It is evident that nobody can make a dollar out of these falling waters except by harnessing them for the service of the community. No capitalization of the developing company can be had and no rates can be charged, except such as are approved by the Public Service Commission of the state. What is there to this charge



*An artist's view of one of the electrically driven locomotives of the Chicago, Milwaukee and St. Paul Railroad plowing through the heavy snow of the Northwest.*

of stealing the water powers if they can only be developed under state control, and if they can only make their money by rates approved by the state, and if their income can only arise from putting the power which

is now going to waste to the service of the people?

For twenty-five years we have permitted these great economic resources of the State of New York to run to waste, while the politicians have played football with this subject. I propose that the people of the state demand now that this economic proposition be dealt with on an economic and sensible basis; that the powers be made available, and that we substitute economic progress for political horseplay.

The problem of the St. Lawrence powers is being studied by an international commission under the leadership of the Secretary of Commerce of the United States.

I have had some experience both in this country and abroad in seeing politicians attempt to handle economic problems. I have seen them fail. If the people of this state will demand a non-political and impartial handling of the question of water power development and the adequate distribution of that power without discrimination throughout the state, then I am sure that our industries will grow, our barge canal will have its traffic, our farms will be in a position to demand and receive electric service, and their productiveness and their value will be increased.



*Potato field and orchard near Garland, Utah, irrigated by electrically pumped water served by a Utah power company.*

# Some of the Major Problems

By JAMES E. CLARK

**W**ITH the exception of Joseph's grain operation in Egypt, as related in Genesis, there has been no really outstanding successful state manipulation of a nation's food supply.

But it is particularly to be noted that the conservation of corn in Egypt was not prompted by a desire to fix prices, but by a desire to conserve food against the day of want, whereas present-day schemes have as the objective the fixing of prices.

Notwithstanding the allurements of the splendid gains which appear to be in sight if a government would but fix prices so that the farmer could raise all he wanted and know in advance the price at which he could sell it, no generation has ever succeeded in getting the scheme to work.

They used to discuss this in ancient Rome. Indeed, one scheme was that the state should buy all the grain, and from time to time ever since, the Anglo-Saxon race has had a fling at some variation of the plan, so that the proposal as laid down in the McNary-Haugen bill during the last session of Congress was not at all new in the fundamentals.

The plan is on its way to a re-introduction in some form in the next Congress. Representative Dickinson of Iowa has drafted a measure, which is entitled, "A bill to establish a Federal Farm Advisory Council and a Federal Farm Commission to aid in the development of cooperative marketing and in the disposition of the domestic surplus of agricultural commodities and for other purposes;" and Mr. Dickinson is sending the draft out for discussion and criticism in order that he may further perfect it before introduction.

Any measure which has as its object the improvement of agriculture is worthy of a respectful and sympathetic consideration on all sides, for, in the last analysis, such a measure is for the good of everyone, as well as for the good of agriculture, but any measure which seeks to so arrange things that industry may produce without limit and be paid fixed prices, cannot by any stretch of imagination, help that industry. Industries like steam engines need governors to keep them from running wild and destroying themselves.

If, perchance, a scheme should be enacted into law whereby prices might be fixed, even on a variable scale, economic laws would still assert themselves and find a way of so compensating and equalizing that men would at last come to a realization of the fact that economic laws cannot be suspended, thwarted or permanently checked.

We are inclined to the belief that, were it possible for governments to control the food business and to fix prices for the ordinary necessities of life, and that such control and such fixing were beneficial to the public, some government between Joseph's time and our own would have found the

way, and price fixing would have been a permanent institution long ago.

If the matter ended with failure to enact such plans into law, perhaps little harm would be done, but there is a vicious by-product from such paternalistic agitation. The propaganda in behalf of these schemes is likely to lead many men and women to the belief that the government could, if it would, take steps to improve their condition by fixing prices. The never-to-be realized vision thus raised is likely to be followed by discouragement, class misunderstanding and even class hatred.

To lead men and women to think that the government may do something, however plausible, which is impracticable and permanently impossible is to sow broadcast seeds of discontent.

## Beneficent Advertising

**B**ILLS have been introduced in the legislatures of several states to prevent banks and trust companies from advertising for fiduciary business on the theory that trust companies are encroaching on the rightful prerogatives of lawyers.

The statutory prohibition therefore is sought on the theory that if trust companies do not advertise then more of this class of business will go to the legal profession, whereas if institutions with fiduciary powers continue to advertise there will be less business for the legal profession.

There is perhaps nothing in which advertising is more beneficent in its results than in the advertising of trust powers.

What advertising has done, and what it is doing for men in building up estates it should be allowed to do also for the same men in conserving their estates.

An agency which has served a man and his family for a lifetime in accumulating an estate and perhaps in providing employment for many hands should be permitted to serve also in paving the way for the conservation of his property and his business after his death!

Many an estate has shrunk in value and the beneficiaries have unwittingly lost and wasted values merely because the father and husband—good business man though he may have been in everything else—neglected to make adequate provision for the conservation and administration of his estate after he ceased this life.

One of the first functions of fiduciary service advertising is to quicken men to a realization of the injustice they commit if they fail to make provision for the proper administration of their estates, while they are still able to give deliberate thought to the subject. This advertising creates business for lawyers, as well as for corporate fiduciaries for the corporate fiduciary prompts those whom they address to go to their own lawyers to have their wills drawn.

And like most true advertising the appeal

of the fiduciary company develops business by spurring to action thousands upon thousands of people who would otherwise give little or no thought to what may become of their estates after death.

One of the highest services that such advertising renders is that it makes for efficiency and economy. An estate left to a widow untrained and inexperienced in business does not have the same chance of efficient management as does an estate in the custody of a permanent organization of widely experienced men, held to strict accountability by many laws, and depending for its very life upon its reputation for fair dealing and efficient management, its fees generally fixed by law, but if not actually fixed by law, known and determined by the prevailing practice of the locality.

This kind of advertising is in a sense commercial, but in a higher sense it is the most practical kind of philanthropy. It would be a public misfortune to the widows and orphans of every state if the legislature of that state should view such bills in any other light.

Moreover, enactment of such a law in any state would be to put a blight upon enterprise and public service, and to establish a Russian-like precedent at total variance with American ideas of fair play.

## Detrimental to National Unity

**I**N another part of this issue there will be found an article by H. L. Russell, dean of the Wisconsin College of Agriculture. As a narrative of travel it is interesting, as a report on agricultural methods in another country it is suggestive, but as a lesson in economics it may serve as a bright light to help us see our way safely through the fog which surrounds the subject of price-fixing.

Dean Russell tells us that far-off New Zealand has some God-given advantages in dairying and to these, her people are so quick to add whatever scientific investigation may produce, that he found the new methods of doing things devised or discovered in America's agricultural colleges in more common use there than in the United States.

Due to the favorable climate and the enterprise to adopt labor saving machinery and advanced methods, New Zealand can produce butter at 30 cents a pound. Ocean freights are so low that butter can be shipped to London for 2 cents a pound—through the Panama Canal—or only half a cent more than the cost of shipping butter from Wisconsin to New York.

Butter in New York City was selling retail for around 42 cents a pound the latter part of April. At present prices therefore a tariff of 8 cents a pound on butter coming into the United States is not an impossible hurdle for those who can produce at 30 cents.

If we can fix a price on one farm product  
(Concluded on the next page)



# Changes in the Field of "Legals"

BY W. A. LLOYD

## New England States Expand List of Bonds That Are Legal Investments for Savings Bank by Including Securities of Public Utilities. New York Makes Slight Progress in This Direction. Equipment Trust Certificates Not Recognized Yet.

**I**N New York state the requirements which make certain securities legal for savings banks and estates are quite rigid in some respects and rather loose in others. Main interest attaches to the provisions permitting bonds of railroad companies to be purchased by savings banks or trustees, in the one case up to a specific percentage of their assets. In general these provisions are:

That a railroad whose bonds are to be legal must be at least 500 miles in length and incorporated under the laws of the United States.

That at no time within five years next preceding the date of any such investment shall the railroad corporation have failed to pay the matured principal and interest on all its mortgage indebtedness.

That it shall have paid regularly and punctually to its stockholders during these five years at least 4 per cent on all of its outstanding capital stock.

That the outstanding capital stock of the railroad corporation shall have been equal to at least one-third of the total mortgage indebtedness of the corporation, including all bonds issued or to be issued under any mortgage securing any bonds in which such investment shall be made.

At the end of the war, while the railroads of the country were under Federal operation, an amendment to the New York State Act was passed by which certain provisions relating to dividends were waived. This kept within the legal list bonds of roads such as the Chicago, Milwaukee & St. Paul and the Baltimore & Ohio, which had been forced to pass their dividends. In the case of the latter, dividends on the common stock were suspended from June, 1919, until March, 1923, without, however, affecting the legality of Baltimore & Ohio mortgages.

### New York "Legals"

**I**N New York, government, state and municipal bonds, real estate mortgages, certain railroad bonds, promissory notes, Federal Land Bank bonds, bankers' acceptances and judgments and contracts are legal for the investment of the funds of savings banks and trustees. However, there has been no progress made in expanding the scope of legal investments and in spite of the fact that the credit of a great many public utility

companies has risen above that of not a few of the railroads whose bonds are legal, the mortgages of corporations supplying what are now the necessities of daily life have not been permitted to enjoy the privileges given to railroad bonds. New England states have been much more responsive to new conditions than has New York state, so that we find in Massachusetts, Connecticut, Rhode Island, Vermont and New Hampshire a large and rapidly expanding list of bonds of telephone companies, gas, water, electric light and power producing corporations, and even a few of the best grade street railway lines on the legal list.

Connecticut has gone further than any other state in making legal a few foreign government bonds, such as Republic of France 7½ and 8's, French 3 per cent *rentes*, and some of the National Defence bonds; the United Kingdom of Great Britain and Ireland 5½'s, 1929 and 1937; a long list of War Loan and National War bonds of fairly early maturities and Canadian bonds. Vermont is about to admit a few to the legal class.

The Massachusetts legislature this year passed an act authorizing savings banks to invest in certain equipment trust issues, but the bill was vetoed by the Governor and passed over his veto by the Senate. Yet certain Boston and Maine mortgage bonds are still legal in that state.

### Some of the Inconsistencies

**I**T is generally recognized that the equipment trust certificates by which railroads finance their purchases of cars and locomotives, are the prime form of railroad investment. Most of them are rated by the analysts of securities as AAA in spite of the fact that some of the mortgage bonds allied with them are quite well down the list, from a credit standpoint. However, equipment trust issues are not recognized as legal by any of the important states with the exception of Connecticut and Vermont which have permitted their savings banks to

invest not over 2 per cent of their deposits and surplus in the equipment certificates of about a dozen of the strongest railroad companies of the United States.

If the laws of the various states are to be created in the interest of security for investors, and not to be antiquated, it seems rather absurd to permit the purchase of some of the railroad bonds that are legal, for instance, in New York state and forbid the purchase of the equipment trust certificates, say of the New York Central, which in the mind of the well informed investor stand almost next to government or state securities in the matter of absolute security. And it is equally short-sighted to forbid the bonds of companies which provide the telephone service of a state or a nation or the illuminating or water service of a community or a section of the state the same rating as some railroad whose earnings have for a period of years barely permitted it to keep within the limits of the legal clause. Instance after instance could be cited of public utility mortgages on which the interest is earned many times over and whose stocks have a long record for paying dividends which are not permitted to be purchased by banks or trustees while the same institutions and individuals may purchase the bonds of transportation lines that have long given evidence of going into a decline.

Massachusetts is enlarging its field of "legals" through permission to invest in certain telephone bonds, provided they comply with the restrictive limitations under the present law. Such bonds, in order to be legal, must be of companies with a gross annual income of not less than \$10,000,000, paying interest and matured principal on all of their indebtedness, at least 6 per cent on all stock issues, a first mortgage on at least 75 per cent of the entire property, or a collateral mortgage by deposit of bonds and stocks of other telephone companies under indenture provisions which limit the amount of bonds so secured to 75 per cent of deposited securities.

### Major Problems

(Continued from page 688)

we can add to the list and include butter. If we fix a price on any widely produced commodity we are pretty sure to add to the general volume of the production and equally sure that we will diminish the economy under which it is produced.

Geographically, New Zealand is on the other side of the world, but practically, this

competition even now is in New York harbor.

Price-fixing under such circumstances seems futile—even if it were practical, for if prices are maintained by artificial legislative props, the consumer will have his day in pulling down the props, a process likely to cause more permanent distress than the condition the well meaning friends of agriculture now are endeavoring to remedy.

There is nothing greater or grander in the United States than the unity of the people. Price-fixing by statute law is a

menace to that unity because it takes from one class arbitrary sums of their earnings and gives to another class instead of allowing the basis of exchange to be determined by economical law with which no man may tamper with impunity.

Dean Russell's observations suggest that a similar investigation—on a world-wide scale—of the conditions under which all commodities that might be included in the schedule of fixed prices are produced, might show the price-fixing plan to be the harbinger of new difficulties for agriculture.

# The Directors' Actual Knowledge of Their Bank's Affairs

By JOHN C. PAKTEL

**Directors Should Inform Themselves of the True Condition of Their Banks. Ignorance of Real Value of Rediscounts and Genuineness of Signatures Causes Heavy Losses. Should Learn to Understand Property Statements. Constant Vigilance Needed.**

**I**T is the long-established custom of the board of directors of a certain bank to count the cash on hand and to check the certificates of deposit at each monthly board meeting. One certain director always counted the gold, the gradual accumulation of many years. The bank was visited by bandits, who took all the cash. The loss was covered by insurance, a new supply of cash was obtained, with the exception of gold, and the bank operated as usual. At the next directors' meeting there was no gold to count, and the director who had always counted it quit attending the meetings. This perfunctory, incomplete check, made at the same time each month, passed for an audit of the bank's condition.

The work of a properly qualified auditing committee of directors or stockholders is so important that a board of directors is omitting the very best available means of determining the actual condition of their bank if it does not insist that such a committee be appointed and make regular examinations and reports. This committee will need experienced assistance in the largest banks, but the benefit is well worth the cost. Minutes of board meetings which have come under the notice of the writer contain resolutions instructing the directors' auditing committee to "make their regular semi-annual examination on such and such a date, or on some other date acceptable to the cashier."

## Examination Without Value

**T**HE result of an examination of this kind is without value, and generally the report is written up by the cashier and signed by the members of the committee. It is not the intention of this article to tell how such an examination should be made, but it is clear the report of the committee under these circumstances does not tend to give the directors the information about their banks which they should have. Directors serving on auditing committees have freely admitted that employees of the bank listed the notes for them, ran the individual ledgers, reconciled the accounts of correspondent banks and, in fact, did everything except actually counting the cash, which the committee managed to do themselves.

A certain bank was under frequent examination because of its unsatisfactory condition. The board of directors was unusually well balanced, representing several different kinds of business and professions.

They apparently gave close attention to the examiner's instructions, agreed with him that certain corrections should be made, and that no delay should be countenanced in meeting all requirements. The next visit of the examiner in 90 days showed conditions practically the same as before.

The directors stated they had instructed the president to make the corrections agreed upon, and they supposed he had done so. Several meetings had been held in the meantime, and it would have been no difficult matter for the directors to have ascertained if the corrections had been made as promised. They did not inquire of the president concerning progress made, because of the false assumption that doing so would reflect upon the president's integrity or ability. Their neglect in this instance caused the bank a serious loss through the failure of one of their country bank correspondents, for whom they had been carrying a line of rediscounts without requiring collateral, or property statements from the makers of the notes. Some of these notes were found to be forgeries by the president of the country bank; others were found to be inadequately secured. All notes rediscounted were indorsed by the president of the country bank, but he was found to be hopelessly insolvent. Neglect of the board to acquaint itself with the value of these rediscounts and the genuineness of the signatures caused a loss of many thousands of dollars, which could have easily been avoided, inasmuch as both banks were located in the same community, and full information was easily obtainable.

## Importance of Property Statements

**P**ROPERTY statements of borrowers are being required more and more by progressive banks, but the extent to which directors are unacquainted with the statements on hand and their inability to interpret these statements when presented furnishes one reason for the unfamiliarity of the directors with the borrowers' condition, and causes them to rely on the judgment of their active officers to pass on the loans made.

A credit statement is not such an intricate affair, but that the average director can quickly master its significance and arrive at a definite conclusion as to the customer's solvency. Outside of the very largest banks where excellent credit files are of necessity maintained and referred to, directors of the

greater portion of the banks do not concern themselves individually about credit data to any appreciable extent, and usually approve the loans already made by the active officers. The writer has read the minutes of several thousands of directors meetings and has noted but one loan being disapproved by the board and requested the officer making the loan to take it out of the bank. This does not refer to action taken by discount committees, properly functioning, which pass on applications for loans before being made, the minutes of which meetings show numberless rejections of applications.

The liability ledger, when properly kept, is an invaluable guide for the directors, yet it is found that not one director in a dozen ever personally refers to this record. At a meeting of the board of directors in a university city, the liability ledger was presented to four directors in turn, with the request that these directors examine the sheet of the borrower then under discussion, and each should state the amount of borrowings of this customer as shown by the ledger sheet. The first one said the party did not owe anything, the next said it appeared he owed 10 cents, the third said \$100, while the fourth one had the amount correct, \$894.

## Posting the Ledger

**T**HE difficulty in determining the amount of the borrower's liability in this case arose from the manner in which this ledger was posted. It had become the practice of the cashier to have the amount of discount charged on each loan indicated on the left margin of the sheet, and it happened the last loan made was a small one on which he had collected a 10 cent discount. The total borrowings of the customer were not carried forward, hence no balance was shown in the "balance" column. The small note had been paid, but one immediately above it for \$100 was still outstanding, so the third director gave the amount as the total borrowings of the customer, while the fourth director happened to grasp the system used, and added all the open or outstanding items together and got the correct result.

The cashier defended his system of keeping the liability ledger, as it was perfectly clear to him and the directors could ask him concerning any borrower's liability at any time and he would quickly give the correct

(Continued on page 714)

# The Cycle of Mystery Investments

By CONKLING HONSFORD

**Inquiry of the State of New York into a Process of Extracting Gold from Adirondack Rock Recalls Two Famous Mystery Investments. The Keely Motor and the Process by Which Gold Was Supposed to Have Been Extracted from Sea Water.**

**B**USINESS is not the only thing that goes in cycles. There, for instance, is the mystery investment. That, too, seems to have a cycle, for it recurs with some regularity, though almost invariably in a new dress, sometimes taking its hue, chameleon-like from the environment, and again like the ghost in Hamlet appearing in the same old duds that it wore in other times, and, still like the ghost, striking awe to those who see, or think they perceive a shadowy something.

This cycle of the mystery investment brought to Gloversville, N. Y., a scientific scheme for extracting gold from certain mountain rocks. Gloversville is at the foothills of the Adirondacks. The hills and dales of this playground have for years been subject to investigation on the part of experienced and inexperienced prospectors. All sorts of things have been discovered in these hills and it is said that numerous mineral claims have been filed at the Capital in Albany. At one time a sand near the village of Groghan excited the interest of a group of men who thought that it would yield gold. A small shack was erected near the interesting sands, but if gold materialized it was not, apparently, in paying quantities.

Periodically also it is said someone finds a certain black stone in the mountains, concludes that it is coal and journeys on to Albany to file his claim, only to discover that the substance is not coal and has none of the properties of coal.

A German chemist who declares that he has a process by which he can extract gold from the rocks and clay of Pinnacle Mountain, standing near Gloversville, won the confidence of a number of business men in the glove city and they have been backing him in his venture in the expectation of great gains. But the state of New York last month intervened through the office of the Attorney General and demanded to be shown before stock should be sold to the general public. As a representative of the Attorney General expressed it, "no man could be debarr'd from financially backing an experiment but no stock can be sold on the representations made to date."

## Kept His Secret

**T**HE man with the secret for extracting gold from the erstwhile useless rocks of the Adirondacks was put upon the witness stand by the Attorney General's men who were detailed to make the investigation. He is one Richard Rodrian, a German chemist and inventor.

"When the little German chemist took the witness stand," says the New York *Tribune*

in its report of the hearing, "his eyes blazed and he launched into a series of speeches. Every question brought a long discourse on what he was trying to do, but never a hint of his so-called gold secret escaped him.

"I tell you this," he cried, "in two weeks from next Monday you should come to my laboratory. There I will prove to the world and to the Attorney General the truth of my secret. I will produce gold in the quantities I say. I tell you and I tell the world I am a plain man and a good man and I am only trying to do good to the world and for the world. Why should anybody make fun of me when I only want to do some good? I will give the world great quantities of gold."

During the inquisition the chemist was loyally supported by a group of his financial backers. The suspicions of the Attorney General's office seemingly did not dispel their visions of great profits from a secret which was held by a stranger who had come to them from overseas.

A year ago the secret process was tested at Columbia University and according to an announcement recently made from the university laboratories the process produced gold only at the rate of 23 cents per ton and was therefore held to be impracticable.

## Gold from Sea Water

**T**HE furore in Gloversville over a mystery recalls the experience some years ago of a number of investors in Boston with a man who had a process of extracting wealth from the seas. Gold in minute quantities is found in sea water and the wizard of the waves obtained backers by declaring that he was in possession of a process by which gold could be extracted from sea water in paying quantities. Sea water is cheap and plentiful along the New England coast so there was to be no cost for the raw material. All that was necessary was sufficient money to construct the right kind of a plant and then he and all the backers would be on the broad highway to undreamed of riches. This wizard constructed a mysterious plant, not conveniently located, but rather inconveniently located, procured a supply of gold dust and initiated operations. But the real nature of the operations were kept secret and as the essential parts of the plant were under water, the doubters and the skeptics did not find much upon which to base destructive criticisms.

Every prospective investor was however invited to go to the plant, if he wished to get closer to the heart of the world-revo-

lutionizing operations. One version of what happened when they arrived is as follows:

"Investors and investigators were always received cordially; in fact, many of them were brought up by Jernagan, the inventor himself. They were shown everything except the secret process. They examined the empty accumulators; they were told that these were connected with the apparatus in the secret chamber; they saw the raw material brought out from the accumulators, each morning, and in the laboratory they saw the gold being extracted from the mass; above all they saw the ingots or bricks which were being sent down to the United States assay office, and they saw the reports of the assayers there, declaring the value of the gold and silver thus received. As for the process Jernagan refused to give any explanations of any kind. That was his secret; they might see the preparations; they might see the results, and if they were not satisfied with these it could not be helped. Usually they were satisfied and put in their money."

It is recorded that nearly a million dollars were put into this scheme by credulous investors who really had not one bit of dependable evidence upon which to justify an investment. Eventually the man with the secret for extracting wealth from sea water disappeared and he took his "secret" with him.

## The Keely Motor

**O**F similar interest is the story of the Keely motor backed by business men of high standing. For over a score of years Keely was supposed to have been working on a motor that would revolutionize industry. In all this period he was able to get financial backing and in all of this period he was able to balk investigation before it reached into the heart of the scheme. Like the sea-water man Keely could show results of his scheme but he was emphatic in his refusals to let anyone into his secret. Sometimes he answered questions with a lot of phrases and words which tended to overawe the credulous or throw dust into their eyes.

So the years ran on with many disappointments to the backers but their faith failed not until one day Keely died. Then they shared his secret. "Instead of dealing with an unsuccessful inventor they had been dealing with an unusually successful impostor."

The history of the super investment opportunity based upon a profound secret is almost as old as civilization. And whenever the product of the mystery is to be gold men are not found wanting to back it.



# Immediate Payment to Claimants Against Germany

**Commerce and Marine Commission Suggests That the U. S. Government Might Issue Bonds to Provide Cash to Satisfy Awards Already Made. Interest on Bonds to Be Provided, It Is Planned, by Payments Received from Germany.**

A PLAN by which prompt reimbursement of those American claimants against Germany to whom awards have been made is offered by the Commerce and Marine Commission of the American Bankers Association: Let the United States government issue bonds and pay the successful claimants now. The payments received from Germany from time to time will, it is hoped, be sufficient to meet interest and amortization payments on the bonds; consequently the United States Treasury will not have to provide any cash under the plan, save perhaps the first interest payment of about \$1,000,000.

This suggestion was a prominent feature of a report of the Commission presented at the recent Spring Meeting.

"The continuation and growth of prosperity in the United States are so dependent upon the successful operation of the Dawes plan," declared the Commission, "that the Commerce and Marine Commission has felt it advisable to concentrate its attention for the moment upon this development, as a very real opportunity may be offered at the Brussels Conference of the International Chamber of Commerce, which is to be held June 21, 1925, to take action which may be helpful in furthering the economic restoration of Europe.

"The Commission has been making a careful research along certain lines in connection with the European economic situation for the purpose of enabling active participation in the Brussels Conference with knowledge of the facts. This research has already disclosed a very interesting situation. In the first place it has been found that in the United States there is no department of the government or no organization which has been able to develop any system that effectively shows the quantity and value of the annual production in the United States. The Census Bureau makes a compilation of this nature in census years based on reports received from the census questionnaire, but there is nothing available in intermediate years from which an intelligent idea of the production of the country can be obtained. Federal Reserve figures are compiled to show percentages of increase or decrease in production, but they have had to be developed on a basis that carries within it too large a proportion of estimate to give a true result, even though such figures may give some idea of the trend of production. When these figures are applied to the census figures from one census period to the next, they do not balance.

"It is hoped that the research undertaken

by the Commerce and Marine Commission may result in the development of some system that will effectively enable compilations of the value of our annual production, as it is upon production that the whole weight of governmental expenditure and accumulation of national wealth by the people depend. There are some very real difficulties involved in obtaining such figures, but their importance is such that the problem should be solved.

Another situation of unusual interest was developed in connection with the research undertaken by the Commission that has never been given sufficient prominence, although many students have been familiar with the facts. It was found that the greatest and most serious economic unsettlement in Europe has occurred since the Armistice, and that, in spite of the violence of the war and the tremendous effort of the European nations to meet their requirements, they emerged from the war in far better shape economically than the condition in which they found themselves, say, Jan. 1, 1924. The first thought would naturally be that the inertia of the war might have caused such a situation. But a careful analysis of the conditions which prevailed at the time of the Armistice and that developed following it showed conclusively that this was not true, and that the post-war conditions were induced by the futile attempts of the governments to try and correct the situation by edicts and legislation, which hampered and curtailed production, whereas economic order could only be attained through the encouragement of production.

"Since the last meeting of the Council the German government has made an award in connection with the pre-war German balances of American banks that has been accepted by the State Department of the United States, and that allows recovery of the claims of the American banks on a basis of sixteen cents a mark and interest at 5 per cent from January 1, 1920. It was necessary to obtain an award before the question of payment could be taken up, but this phase of the matter is now under serious consideration.

"The Chairman of the Commerce and Marine Commission has been invited by other American claimants to become a member of the executive committee of the American War Claimants Association and has accepted. The purpose of the association is to study ways and means and methods of procedure and endeavor to carry them out; that, it is felt, will result in a more prompt

final payment of the claims. The members of the association include the large industries, insurance interests, the *Lusitania* claimants, American banks and others having altogether claims which have been allowed that amount to about \$70,000,000.

"In view of the fact that the American government believed it to be advisable in the interests of the people of the United States to enter into the Paris Protocol on a basis which meant an agreement on the part of our government to allow payment by Germany of American war claims over a long period of time, it is felt that those American claimants to whom awards have been made should be promptly reimbursed by our government, which should make its own recovery from payments received under the terms of the Protocol in which it has taken part.

"It would be possible for the United States government to take care of this situation by the issuance of bonds, which could be met from the payments to be received under the terms of the Protocol, which would not necessitate any cash payment by the Treasury Department, except possibly a part of the first interest payment amounting to about \$1,000,000. It is estimated that the total claims will probably be something under \$200,000,000, and that the receipts from Germany under the Paris Protocol should be sufficient to pay interest upon such an issue at 3½ per cent, together with an amount that would amortize the bonds in such manner that they would not have to be met out of Treasury funds received from taxation. Such action would be just to all American interests and would immediately remove such friction as still exists between American war claimants and Germany because of the non-payment of just claims, which would re-act to the benefit of the American people as a whole."

## Block Sale of Fake Stock

UNDER a new law in the state of New York, all dealers in securities must publish notice of their intention to sell or solicit subscriptions for securities unless these come within the class of securities exempted under the provisions of the Martin law. In this way, it is anticipated that the Attorney General of the state will receive advance notice of all classes of securities intended to be sold to the public and thus will be able to act before the investor can be defrauded, if the securities are of a fraudulent character.

The new law goes into effect on June 1.

# Here Is a Competitor to Watch

By H. L. RUSSELL,  
Chairman Advisory Council, Agricultural Commission  
American Bankers Association

**New Zealand a Dairying Country With Advantages Which Enable It to Overcome Distance. Has Taken Trade Away from Canada and Denmark. Possibility That Her Products May Compete With Our Own in the Atlantic States Markets.**

**T**HE average man may think of New Zealand as a little speck in the Pacific Ocean, and of no particular significance to us, but in the not distant future we are going to find it a matter of sufficient moment, so that we should know something about this country.

Here is a little tiny speck of about 100,000 square miles out in the Pacific—the equivalent of two moderate-sized states—that has a population of about a million and a quarter.

The islands have very few natural resources from the point of view of minerals.

They have some coal, government-owned, no iron, no oil, gold, to be sure; but from the standpoint of industrial development, the opportunity for New Zealand to occupy a place of any significance is not large. They have, however, a wonderful climate, a high rainfall from 40 to 100 or 120 inches. Therefore, from the standpoint of the soil, the conditions

are exceedingly favorable, especially for pasturage. New Zealand is a pastoral and agricultural nation. It desires to become the dairy farm of the British Empire. From the beginning the entire effort of the people of New Zealand has been spent toward the development of agriculture—first the sheep industry and later dairying. They are becoming so dominant in dairy development that they are supplying a continually increasing percentage of dairy products for the British Empire.

Thirty years ago America supplied Great Britain with the larger part of the cheese which she imported. It was at that time that we developed here in America what was known as "filled cheese." It ruined our British market. Canada took it away from us. New Zealand has now wrested from Canada the cheese market, and for the last three or four years has been shipping a larger proportion of cheese to Great Britain.

## Distance Not a Barrier

**A**T the same time New Zealand has been developing along the lines of butter production. Over 150,000,000 pounds of but-

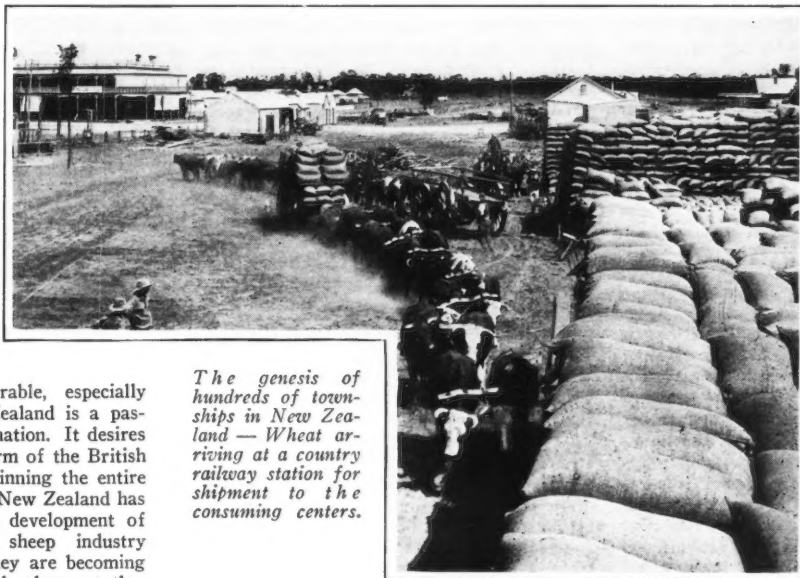
ter are shipped annually from New Zealand to Great Britain. Denmark, heretofore, has been the mainstay of Great Britain from the standpoint of butter. Thirty years ago New Zealand exported into England only three per cent as much butter as did Denmark. Today she is exporting 75 per cent as much. The dairy products of this little island dominion now exceed over \$250,000,000.

The distance from Great Britain would incline one to think that it might be an expensive process to transfer its products

more than perhaps a third of the potential dairy land of New Zealand is now actually in use for that purpose. As a possible future competitor this little island dominion is worthy of our attention.

The costs of production are significant. Here is a country that is capable of having its cattle out of doors twelve months in the year. There are no barns; there is no such thing as silage; there is no necessity of the feeding of concentrates, which we use here in so large a measure.

The question of labor is also to the advantage of New Zealand, for they have had the foresight and ability to utilize machinery for milking purposes, so that a common method of maintaining a herd and milking is by machinery. Under these conditions a man and a boy are capable of handling a farm containing fifty or sixty head of cattle. It is not necessary for the man to spend time cultivating his fields and harvesting a grain crop to be fed to these cattle during the winter months. All he has to do is to turn his cattle out to graze, and he milks them



*The genesis of hundreds of townships in New Zealand—Wheat arriving at a country railway station for shipment to the consuming centers.*

a 12,000 mile distance, through the Panama Canal. But when the relative cost of rail and water transportation is considered New Zealand possesses an advantage which is very great.

New Zealand can ship butter from Auckland or Wellington to London or New York at a cost of two cents a pound. It costs us in Wisconsin a cent and a half a pound to ship to New York. It would therefore be possible for New Zealand to come into the American market at almost any time were it not for the fact that the tariff is a barrier of some dimensions.

New Zealand's dairy products have doubled in the last seven years. They are destined to increase more rapidly in the future than they have in the past, for not

by machinery.

Electricity is rapidly being introduced through the hydroelectric developments. The farmers are being supplied with electric power, so cheap that they use electricity as a means of heating water to cleanse utensils.

## Neutralize Their Advantages

**B**UT, curiously enough, with these very great advantages the farmers turn around and waste through an insensate competition for land. This young country, less than 75 years of age, has quantities of available land at its disposal and yet the people have been bidding against each other for land for dairy purposes. During the period when high prices prevailed, when they received 60 and 65 cents a pound for butter, the

price of land rose from \$150 and \$250 an acre up to \$400 and \$800 per acre.

I saw lands in the Taranaki Province that had been purchased immediately subsequent to the war at \$1,000 per acre. Under those conditions it is impossible to maintain a permanent dairy production at anything like reasonable figures.

There has come, of course, the process of deflation which is inevitable. We think here in the corn belt of America that that process of deflation has been exceedingly severe, but we do not know what deflation is in this country, compared with what was necessary in that country, where the man who bought land during the period from 1918 to 1920 has had to suffer a reduction in value of perfectly enormous amounts. That has meant that mortgages have had to be sacrificed. It was necessary to declare a moratorium which was only removed by an act of Parliament to take effect on April 1. Prior to that time mortgages could not be foreclosed. It was no uncommon thing to see in New Zealand, land which had not merely a first and second mortgage, but five, six, eight and ten mortgages, one on top of the other. At present New Zealand bankers do not loan upon real estate on account of this tremendous deflation which has occurred.

Conditions are now down to a more nearly bed-rock basis, but the present land values are 50 per cent higher than they were prior to the war, and are about 50 per cent higher than those that obtain here in America.

It is possible, however, for the dairymen

of New Zealand to produce butter for approximately 30 cents a pound. The tariff barrier which prevents the entrance of their butter into this country is 8 cents a pound, but this low freight rate makes it possible to jump this tariff barrier whenever the conditions between London and New York permit.

The entire dairy output is that of a single control, organized by the government, but really founded by the dairy industry itself. A shipload of butter is under the control of the London agent of the New Zealand cooperative concerns, and that butter can be diverted to New York as well as to London.

Very recently they have put into operation the New Zealand Dairy Produce Control Board which will have the entire management of all of the dairy output of that nation and under these conditions it will be possible to have a unified sales program, the like of which we know of nowhere else in the world.

The quality of their product is exceptionally high and the methods of control and the methods which they have devised and used in their factories are of the very highest grade. Their factories are very much larger than ours, modern to the last minute, every device and every invention. A discovery that is made in Europe or America with reference to the improvement of the dairy industry is put immediately into operation. I saw more of the discoveries which have been made in the dairy schools in America in actual use and operation in

New Zealand in those factories than I have seen right here at home.

With that progressiveness, with the unbounded natural opportunities which they have, with the fact that they have a racially homogeneous people, 98 per cent of whom are of British origin or British stock, we have here a factor of no small moment in the economic development in the future.

It is possible, of course, for us to erect tariff boundaries higher and higher, but when you realize that their main output is the British market, you can easily see that it is possible for them to divert some of their product to American shores, if thereby they can protect their larger market at home.

The New Zealand dairymen have practically captured the American market in the Hawaiian Islands. They are less likely to invade the Pacific because of higher freight rates from New Zealand to San Francisco than from New Zealand to New York, but the possibility of their entering our main point of consumption, the Atlantic seaboard, is always at hand.

A few days ago a ship containing a million pounds of New Zealand butter arrived in New York harbor. The price went down two cents overnight. The butter was not put upon the American market, but was put in bond. Under those conditions it is possible to reship to the London market if the economic conditions make it worth while, or it can remain here in America as a further menace until such time as it is released for American sale.

## The Association's Educational Foundation

By LEWIS E. PIERSON

Chairman Fiftieth Anniversary Committee, American Bankers Association

UNDERSTANDING of the economic significance of facts is far and away America's greatest need today. The promotion of education aimed to bring about a general increase in such understanding has long been recognized by the American Bankers Association as one of its paramount obligations, for soundness is the essence of banking and there cannot be soundness without economic knowledge and understanding among those having to do with banking. It is therefore the part of good banking not only to dispel ignorance from within the ranks of its own profession but also to exert itself to help raise the plane of economic understanding among all those who use the services of banking. The great field for these efforts lies among the young men of today who will be the bankers and business men of the future, and the Association is about to take a great step forward in meeting its opportunity in this field by establishing an educational foundation.

IT is deemed especially fitting to signalize the Fiftieth Anniversary Convention of the Association, which will be held this fall, by the creation of this foundation, the income from which is to be devoted primarily to the establishment of undergraduate or graduate scholarships in economics in American colleges and universities. It is hoped

that sufficient funds may also be provided for the development of economic research.

This will be a distinct expansion in the educational activities of the American Bankers Association. Twenty-five years ago the Association started the American Institute of Banking for the purpose of enabling bank people to improve themselves in the economic aspects of their work. The success of this movement encourages the Association to broaden its educational efforts. It is an axiom of banking that it prospers only as others prosper—that it serves itself best by serving others. We see no reason for restricting this to a financial sense. The more economic-minded the public becomes the sounder will be the foundations of banking's own prosperity.

The present proposal calls for the establishment of a minimum fund of \$50,000 to serve as a nucleus for a much larger sum. The administration of this foundation will be in the hands of a board of trustees to be designated by the American Bankers Association. That it will be practical to raise this initial amount is shown by the fact that simultaneously with the proposal to establish the foundation came the announcement that \$10,000 had already been subscribed.

The spirit in which the bankers accept the foundation was well expressed by Francis H. Sisson, before the recent meet-

ings of the Executive Council of the Association where the subject was broached and at once unanimously approved when he said:

"Nothing could render a greater service in commemorating for the American Bankers Association its fifty years of successful and useful growth than this foundation to encourage that which underlies our business so fundamentally, the spread of economic knowledge, by putting this practical education within the reach of ambitious and intelligent young men, who could be the apostles of sound economics forever after. It is the thought of the committee to select institutions where such service would be most efficiently rendered, not necessarily the older colleges of the East, but those scattered throughout the country where perhaps greater benefit could be accomplished in the teaching of sound economics than in the more conservative and stabilized communities. We feel that if a start could be made in this field of education a long career of increasing usefulness will be opened for this foundation."

ANOTHER banker, one from the West, Lucius Teter of Chicago, also expressed an important aspect of this proposal when he said: "Those of us who got our early training before the foundation of the

(Continued on page 723)



# Recent Decisions

DIGESTED BY THOMAS B. PATTON, JR.

Assistant General Counsel

COLLECTION—DEPOSITOR'S AGREEMENT RELIEVING BANK OF RESPONSIBILITY FOR COLLECTING BANK AGENTS MUST BE CLEAR AND EXPLICIT.—NEW YORK.

**P**LAINTIFF, a customer of defendant bank, was engaged in exporting merchandise to South America. Plaintiff placed in defendant's hands certain drafts drawn on the vendee in South America and attached bills of lading for the goods, which instruments were to be turned over to the vendee consignee when he paid the draft.

In due course defendant forwarded the instruments to its correspondent bank at the place of the consignee with instructions not to release the other documents until the drafts were paid. Nevertheless, the South American bank, negligently disregarding the instructions, delivered the documents to the consignee, who sold the goods and absconded with the proceeds.

Plaintiff sued defendant to recover the loss, and defendant set up an agreement it had with plaintiff, claiming the agreement relieved it from liability occasioned by default of its correspondents. It is conceded that, if the agreement did so relieve defendant there was no further liability on its part, and that, if it did not, the bank was liable under the "New York rule" (For lists of states following the New York and Massachusetts rules respectively, see Digest of Legal Opinions of Thomas B. Patton, Nos. 1099, 2000), holding a collecting bank liable for the default of its correspondents. The agreement was as follows: "*Collections are accepted by us only upon the express conditions that no responsibility is assumed by us for any failure or delay in collecting or remitting.*"

The court held this agreement fell short of protecting the bank in this instance. For, while it protected the bank from liability of a correspondent bank's default in collecting or remitting, it did not extend to the agent's negligence in creating the loss by wrongly giving possession of property to the consignee contrary to instructions accompanying the bill of lading. For the loss was occasioned through the negligence in delivery, not through the failure to collect. The court said: "When, as in this case, a bank is liable for the acts of its agent in the absence of some special agreement, the agreement exempting it from liability should be so clearly stated that its customers may know in the exercise of ordinary intelligence the extent of the exemption. The contract in this case would not indicate to a fairly prudent business man that failure to collect included a wrongful delivery of securities or merchandise."

Isler & Guye v. Nat. Park Bank, decided Feb. 25, 1925, by N. Y. Court of Appeals, not yet reported.

COLLECTION—ALABAMA STATUTE AUTHORIZING DRAWEE BANK TO PAY CHECK BY ITS OWN DRAFT ON ITS CITY RESERVE BANK INSTEAD OF BY MONEY, AT DRAWEE'S ELECTION, HELD UNCONSTITUTIONAL BY FEDERAL COURT.—GEORGIA.

**P**LAINTIFF drew a check on his Alabama bank and sent it to a New York bank for collection and deposit. The New York bank had an agreement with the depositor (plaintiff) whereby it limited its liability to the duty of selecting a suitable agent for collection. It accordingly sent it to the Federal Reserve Bank of Atlanta for collection. But the agreement made no provision for the collecting agent's accepting the drawee's draft in payment, and since the Federal Reserve Bank did accept the Alabama bank's draft in payment of the check, it is here being sued for the loss consequent upon accepting such draft, for the Alabama bank became insolvent before it was paid.

The Federal Reserve Bank as defendant sought to excuse itself for accepting the insolvent's draft in payment of the check instead of demanding money, on the grounds that it could not have demanded money because the Alabama statute gives a bank on which a check is drawn the right to pay by its own draft if it so desires. The statute in question (Ala. 1920 Spec. Sess. No. 35, p. 36) provided that "Whenever a check or checks are forwarded or presented to a bank for payment by any Federal Reserve Bank, express company or post office employee, other bank, banker, trust company, or by any agent or agents thereof, or through any other agency or individual, the paying bank or remitting bank may pay or remit the same, at its option, either in money, or in exchange drawn on its reserve agent or agents in the City of New York, or in any reserve city within the Sixth Federal Reserve District."

It was contended that this statute would have authorized the acceptance by defendant of the draft instead of demanding money from the now insolvent bank, but the court declared the statute to be unconstitutional and void as an attempt by the state to make a class of debts payable at the option of the debtor in something other than in legal tender, that is, in gold or silver coin.

Capital Grain & Feed Co. v. Federal Reserve Bank of Atlanta, 3 F. (2d) 614 (Ga.)

*Note:* Several other states have statutes along the general lines of the Alabama statute. These are Florida, Georgia, Louisiana, Mississippi, North Carolina, South Dakota and Tennessee. The statute of North Carolina, 1921, c. 20, p. 135, was held constitutional by the United States Supreme Court in *F. & M. Bank v. Fed. Res. Bank of Richmond*, 43 Sup. Ct. (1923) 651, after the state court had passed upon it and held

it unconstitutional. But the Federal court in the capital grain case distinguishes the North Carolina from the Alabama statute in that the former allows the drawer to take his check out of the provisions of the statute by specifying on the instrument that it is payable in money, while the Alabama statute gives the drawer no such right. There is that distinction between the statutes, but in the opinion of this office there are good grounds for maintaining that the Alabama statute is also constitutional. The matter will be in doubt until there is a decision by a higher court. This was the experience in the North Carolina case supra.

ARBITRATION AND AWARD — ARBITRATOR MAKING PERSONAL INVESTIGATION, WITHOUT NOTICE TO PARTIES, HELD GUILTY OF PREJUDICIAL MISBEHAVIOR.

Arbitrator's personal investigation, without notice to parties, after close of hearings, as to whether bamboo skewers rejected by buyer were salable held misbehavior, prejudicing sellers' rights, within Civil Practice, §1457, subd. 3, requiring vacation of award.

Evidence gathered without notice to parties may not be made basis of award.

Arbitration Act, declaring general and executory agreements for arbitration of future differences enforceable, does not permit evidence unknown to parties and gathered without notice to be made basis of judgment, especially in view of section 8, referring to Civil Practice Act, §§1451, 1457. *Stefano Berizzi Co. v. Krausz* 146 N. E. 436, 239 N. Y. 315 (1-25).

*Note:* This decision illustrates the supervisory power a court may exercise over arbitration.

**A**LAW punishing the possessor of burglar's tools was held constitutional, the plea that the accused owned them for dynamiting fish, etc., and that his property rights and the right to ownership were guaranteed by the state and federal constitutions not availing the defendant. *Lunch v. State*, 125 S. E. 70 (Ga. 10-24).

**A**MUNICIPAL corporation is entitled under Iowa Code (1924) §12719 to priority as a depositor in an insolvent bank. The fact that the deposit was unlawfully made in a private bank would not defeat the claim for priority. In re *Bank of J. Kelso*, 200 N. W. 492 (Ia. 11-24).

**W**HEN a bank being merged with another bank indorses its negotiable instruments in blank and they go to the acquiring bank which is taking the assets and assuming the liabilities of the first bank, the instruments become bearer instruments, and the acquiring bank may sue on them in its own name, and the parties liable on the instruments could not litigate

the validity of the transfer. The bank so acquiring the paper becomes holder under blank indorsement in the same manner and to same extent as transferor, and could not recover thereon without surrendering the security held by transferor. *Nat. Bank v. Erion-Haines R. Co.*, 206 N. Y. Supp. 452, (11-24).

**T**HE general rule that a corporation is without power to indorse for another, held not applicable where the indorsing corporation owned 70 per cent of the stock of the other, the two had a common president and interlocking directorates, and were associated in the transactions out of which the debt arose. *Fed. Res. Bank v. Pacific Grain Co.*, 2 F. (2d) 270 (Ore. 11-24).

#### ATTACHMENT OF SAFE DEPOSIT BOX—SHERIFF MAY BREAK OPEN—NEW YORK.

**A** FOREIGN corporation was being sued on a note in New York where it had various property. Warrant of attachment was issued, and service of a copy thereof made on the safe deposit company where the foreign corporation had a box, the contents of which were unknown to the attaching officer.

On application to this court it was held that the safe deposit company must make a certificate as to the contents (like a garnishee) or surrender the box and contents to the sheriff to be broken open. *Carples v. Cumberland Coal & Iron Co.*, N. Y. Sup. Ct., Appellate Div., First Dept., decided Jan. 16, 1925, not yet reported.

#### SAFE DEPOSIT BOX BURGLARY—PROOF OF CONTENTS BY TRUSTEES OF RENTER—QUESTION FOR JURY AS TO NEGLIGENCE OF SAFE DEPOSIT COMPANY AND CONTENTS OF BOX.—ILLINOIS.

**P**LAINTIFF *Hod Carriers Union* had rented a safety box from defendant for over twenty-six years, when the vault, including plaintiff's box, was rifled by robbers. Plaintiff sued for \$34,500, the alleged value of the contents of the box, and the three trustees or directors of the plaintiff were allowed to testify that five days before the robbery they placed \$3,000 in cash in the box as an addition to its former contents, and that, while they did not count the money and securities already in the box at the time, they saw them, which they had counted or seen counted at other times, and that the bundles of money and securities looked intact. These three trustees were the only ones who had authority to visit the box, and one testified that he had never been there alone, and another that anyone was without authority to visit the box alone. The three trustees testified in substantially the same manner, while defendant made no proof to dispute the testimony as to the contents of the box. The question as to contents was submitted to the jury, and they found the contents to have been as alleged, which finding this court refused to disturb.

Defendant contended that the loss was not shown to have been caused by its negligence, but the jury had found that defendant had been negligent, on the grounds that there had been only two attendants on

the night of the robbery, one being a deskman outside the gate, who issued the pass which the guard inside the gate, the other attendant, accepted. The deskman had been in defendant's employ six months, before which time he had been a bricklayer; the gateman had worked for defendant five months, having formerly been a railroad towerman. The robbers had gained access to the vault by renting a box, paying the rent and presenting the pass slip to the gateman, who admitted them, four strangers to both attendants, without question. This was at night, and after gaining access and getting out of sight of the deskman, the robbers bound the gateman who had accompanied them to show them the box, and committed the robbery.

This court held that the question of negligence having been regularly submitted to the jury, which found that defendant had not exercised ordinary care required by the nature of the goods, their finding would not be disturbed.

*German Hod Carriers Union, etc., v. Security Trust & Deposit Co.*, 146 N. E. 135 (Ill. 12-24).

#### COLLECTION—BANK MAY ACCEPT DRAVEE'S DRAFT IN PAYMENT OF ITEM FORWARDED FOR COLLECTION.—WASHINGTON.

**A**PPELLANT contracted for the purchase of certain land, the deed being delivered in escrow to respondent bank to be given to the purchasers upon payment. The purchasers gave the respondent bank a certificate of deposit issued by a distant bank, and respondent forwarded it through its correspondents for collection. It reached the issuing bank on the due date, which bank remitted its draft in payment thereof. Respondent received the draft in due course, put it through for collection, and after a reasonable time considered it paid, whereupon it released the deed to appellants. However, the issuing bank became insolvent before final payment, and the question here is whether or not the respondent will have to bear the loss for having accepted the insolvent's draft in payment of the certificate of deposit instead of demanding money.

The court held the bank was not liable, for there was proven a general custom among collecting banks to accept the paying bank's draft, and it would be assumed that appellant acquiesced in the general custom employed in making collection of items such as he left with the bank for collection. The court distinguished this case from the *Malloy* decision (263 U. S. (1924) 160), in that no custom was there proven, while one was proven here. Likewise the court pointed out that here was proven a general, as distinguished from a local or one bank, custom among banks as to the usual method of collecting and remitting for items.

The fact that the collecting bank had erroneously thought collection had finally been made in money or solvent credits and had released the deed would not alter the status of the parties, the ones getting the deed being bound to make good the price. *Spokane Valley State Bank v. Lutes*, Wash. Sup. Ct., Filed Feb. 19, 1925, not yet reported.

#### LOSS OF INTEREST PENALTY FOR USURY—DEFENSE OF USURY AVAILABLE ONLY TO PARTIES CONTRACTING TO PAY IT—NEBRASKA.

**P**LAINTIFF is here suing on a note made by defendants to a third party payee. Plaintiff obtained the note from the payee, when the payee indorsed the note to plaintiff as collateral security for a loan then being obtained by the indorser.

Defendant contends that plaintiff cannot prevail on the note, because they were able to prove that plaintiff had contracted for a usurious rate of interest on the loan he was extending on the collateral note sued on. But this defense did not avail defendants because the effect of usury in this jurisdiction is only to deprive the usurer of any interest. "Furthermore, in this state, usury as a defense is personal to the borrower and his sureties and privies." Thus the makers of a note put up as collateral security in obtaining a usurious loan would not be able to avail themselves of the defense of usury, as it was not their note which was tainted with usury. *Phelps v. Williams*, 200 N. W. 831 (Neb. 11-24).

#### MORTGAGEE ALLOWING MORTGAGOR TO REMOVE GOODS FROM JURISDICTION ON NEGOTIABLE BILL OF LADING DEFEATED BY INNOCENT PURCHASER OF NEGOTIABLE WAREHOUSE RECEIPTS ISSUED THEREFOR—WASHINGTON.

**A**CANADIAN bank, plaintiff herein, had a "security title" to certain salmon in Canada, which it allowed the "residue owner" to ship to the United States for sale. The goods were shipped by a negotiable bill of lading, and the warehouse where the goods were stored in the States issued a negotiable warehouse receipt for the same. Defendants made certain advances in good faith on the warehouse receipts, and later realized on the security for reimbursement. Plaintiff brings this action to recover for its losses sustained in having the property no longer supporting their claim under the Canadian Bank Act as collateral.

Plaintiff was not allowed to recover against defendants, because the absolute title to the salmon was not in the Canadian bank, and on the pledgor's removal of the goods to the United States with plaintiff's consent, innocent purchasers of warehouse receipts therefor obtained title. The Canadian bank by intrusting pledgor of salmon securing loan with salmon for shipment to the United States, represented that title was in pledgor, and pledgor's negotiation of warehouse receipts to purchaser for value without notice precludes bank from questioning purchaser's title, irrespective of the Canadian Bank Act. The removal to the new jurisdiction being consented to, the property was thereby submitted to the regulations of the new jurisdiction. *Standard Bank of Canada v. Lowman*, 1 F (2d) 935 (Wash. 10-24).

# Which Wheats and Why

By C. B. SHERMAN  
U. S. Department of Agriculture

**Uncle Sam Has a Mill Down in Washington Where He Produces Flour, Makes Bread and Tells Farmer, Miller, Baker and Consumer How Each May Get Most for His Money Invested in Wheat Anywhere from the Seed to the Loaf.**

**M**ILLING and baking investigations conducted by the United States Department of Agriculture in its miniature experimental flour mill yield results of vitally practical application. Usefulness of the result extends back to the actual farmer and forward to the actual miller and other intermediaries and even to the ultimate consumer. Moreover, these results are such that, if acted upon, are calculated to save thousands upon thousands of dollars all along this long line from farmer to household.

To get these results the department found it necessary to develop its own small experimental mill that could be run entirely under the control of its investigators. In connection with it, a complete flour testing laboratory was developed for testing samples of wheat and for making practical baking and quality tests of the flour. Some of the delicately adjusted apparatus in this laboratory has been developed by the chemists in charge for the especial use of this work.

One of the important objects is to determine the exact relative values of different varieties of wheat. "Before a new variety of wheat is distributed," say those in charge of the mill, "some agency should ascertain if it meets the demand of the market, or it will not be desirable either to the farmer or to the miller. It is not enough to introduce a new variety of wheat that yields more than the variety the farmer is growing. The new variety must be of such quality that the farmer will receive a higher total price for his wheat. Therefore, the plant breeder and the market specialist must work together to see that only those varieties are distributed that are at least as good as the varieties now generally grown."

## **New Varieties Not Distributed**

**P**LANT breeders and market specialists do get together for this work, and the results obtained furnish a basis for definitely recommending the discontinuance of the production of varieties of wheat of poor quality and increasing the production of those of good quality. Moreover, several varieties recently introduced or developed by breeding have not been distributed for commercial growing because these experiments showed them to be undesirable on the whole. Production of several other varieties has recently been rapidly increased after it was determined by checked experiments that they possessed good milling and bread-making qualities.

Inherent qualities of a variety are found to be basic and are usually the principal

factors in the milling and baking value of any sample or lot of wheat. Effects of season, locality, rainfall, elevation and soil are generally less important than varietal differences. Hence, results obtained in this little mill are of great help to the farmer in determining the best varieties to grow, and, when identification is possible, the determinations are useful to the wheat buyer and miller in selecting and blending wheats to meet particular milling and bread-making requirements.

Milling yield and the color of the flour or bread are significant factors in "milling quality," and there are other considerations such as the "strength" of the flour and its capacity to absorb water. Hence, tests must be made from many points of view, and the result of one is of practical value only when considered together with the results of the other tests.

Experimental milling, although not entirely comparable with commercial milling, gives results which indicate as truly the relative milling value of the different wheats as tests made in a commercial mill, according to the investigators. It is a well-known fact, they say, that different commercial mills milling the same kind of wheat, or different operators at the same mill, or even the same operator milling in the same mill at different times, will get results that may vary considerably. Tests made in the experimental mill by standardized methods show less variation in milling yield and in baking quality of flour than some of the variations observed in commercial mills.

## **Results in Understandable Language**

**A**S a result of extensive experiments with American wheat varieties extending through several years the department was recently able to announce results in terms understandable by every farmer. "Marquis is the best variety of hard red spring wheat in milling and baking quality. It is also the most productive variety, except in northwestern North Dakota and northeastern Montana, where it is slightly outyielded by Red Fife, and during the frequent seasons in which rust occurs in North and South Dakota, when it is outyielded by the Kota variety. With these exceptions, Marquis should replace all other varieties of hard red spring wheat in the northern spring regions," says this report. Other varieties of hard red spring wheat are named in order of results. Equally precise statements are made in regard to varieties of durum

wheat, hard red winter wheat, soft red winter and white wheat.

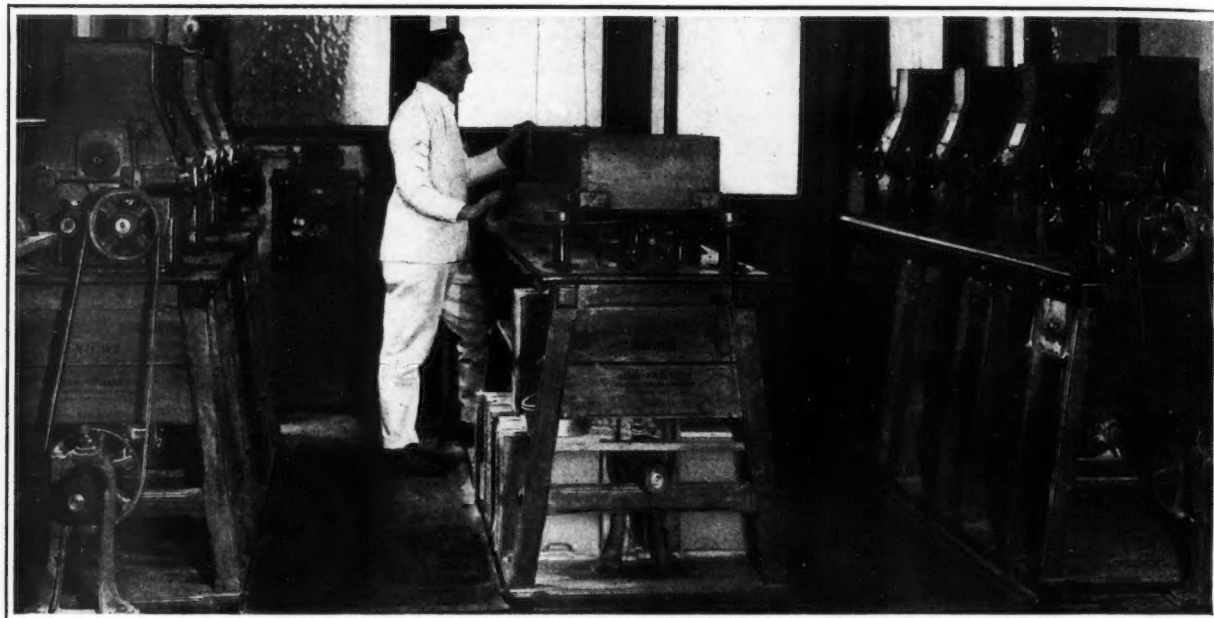
Those who sometimes complain that results of government scientific investigations are not announced in terms useful to the average reader can have no complaint here. Descriptions of the experiments themselves are necessarily detailed and technical, but results are stated in the simplest terms. These results were not only placed in bulletin form and widely distributed, but press releases bearing the definite final conclusions were fully used throughout those areas where they best applied.

Another important use of these experiments, and incidentally the one which first made necessary the ownership of the mill, is in connection with the formulation of official grain standards and their enforcement. For this work the milling and baking qualities of wheat, rye and other grains must be determined and their relationship to the physical and other factors which are or may be of use in the grading of grain. The primary purpose of the Federal grain standards, which are uniform throughout the country and serve as a basis for inspection, market reports and commercial transactions, is to facilitate trading between buyers and sellers who are operating some distance apart. To serve this purpose to the fullest extent, in the case of standards for wheat, the classes and grades must correspond to the relative usefulness of the wheat for milling and baking purposes in so far as this is possible in practical application. Actual tests are impracticable in grading because of the time, technique and equipment required, but are practicable for determining the essential factors in fixing equitable standards. Thus, the little experimental mill directly aids the shipper, the buyer and the merchant after the wheat is grown and well on its way to market. Millers have been quick to make use of the results of the experimental mill from the beginning of its operation.

## **Premiums for Protein**

**C**RUDE protein content of wheats has become an important factor in establishing their market value because of the general relationship existing between the crude protein content of wheat and the baking quality of flour made from it. In some markets premiums ranging as high as five cents a bushel have been offered for each additional half of 1 per cent of crude protein contained in the wheat above the agreed percentage. Ash content is also an important factor in the marketing of flour. There-





*Running a test in the government experimental mill*

fore, as a by-product of the experimental milling work, Mr. Shollenberger and his associate, Dr. D. A. Coleman, have recently been responsible for the construction and publication of a series of extensive tables for converting crude protein and ash content to a uniform moisture base, for the benefit of grain buyers, inspectors, bakers and cereal chemists.

Bakers have been only a little less quick than the millers to make use of the facts found and published by the government workers. In baking bread two general methods are in common use, the sponge method and the straight dough method. The sponge method is used in the baking laboratory. The bread produced in this laboratory is coarser in texture than the commercial loaf, because the dough is allowed to ferment almost to the point of maximum expansion before it is put into the oven. This is done because the differences in quality in the flours used can be determined more accurately when the maximum expansion capacity of the dough is approached. But the flour that produces the best bread in the testing labo-

ratory is found to be most likely to produce the best quality of bread when baked with commercial formulas and equipment.

Chemical determinations made in connection with these tests have certain practical values. Besides showing the investigator whether differences in flour strength indicated in the baking test are true or are due to treatment received by the wheat during milling or in the baking process, the results of the chemical studies offer constructive suggestions to the miller in the matter of handling wheat at the mill and to the baker in handling flour in the bakery.

### **Results in the Household**

**R**ESULTS for use in the great American household in everyday life are to be secured through the cooperation of the Bureau of Home Economics. Methods and formulas for getting the best results in baking bread from various commercial types of flour now found in the retail markets, primarily for the use of the housewife, are to be determined. Types chosen for study

are representative, such as a Minnesota hard red spring wheat flour, a Kansas hard winter wheat flour, a Pennsylvania soft red winter wheat flour and an Oregon white wheat flour. These flours differ widely in their chemical composition and physical properties, and although it is known that some difference in treatment is required in baking, if a good loaf for the family is to be the result, yet little is understood regarding their individual requirements.

So it is that the little experimental mill and laboratory bakery in southwestern Washington is securing results and sending out facts that will ultimately result in saving much labor, avoiding disappointment and discouragement, and in increasing the incomes of the wheat farmers; will increase the efficiency and profits of the grain shippers, dealers, merchants and millers all along the line; will aid inspectors, chemists and bakers, and will place a better loaf of daily bread, produced at less cost of labor and anxiety, on the family table.

### **Gold Reserves of European Countries**

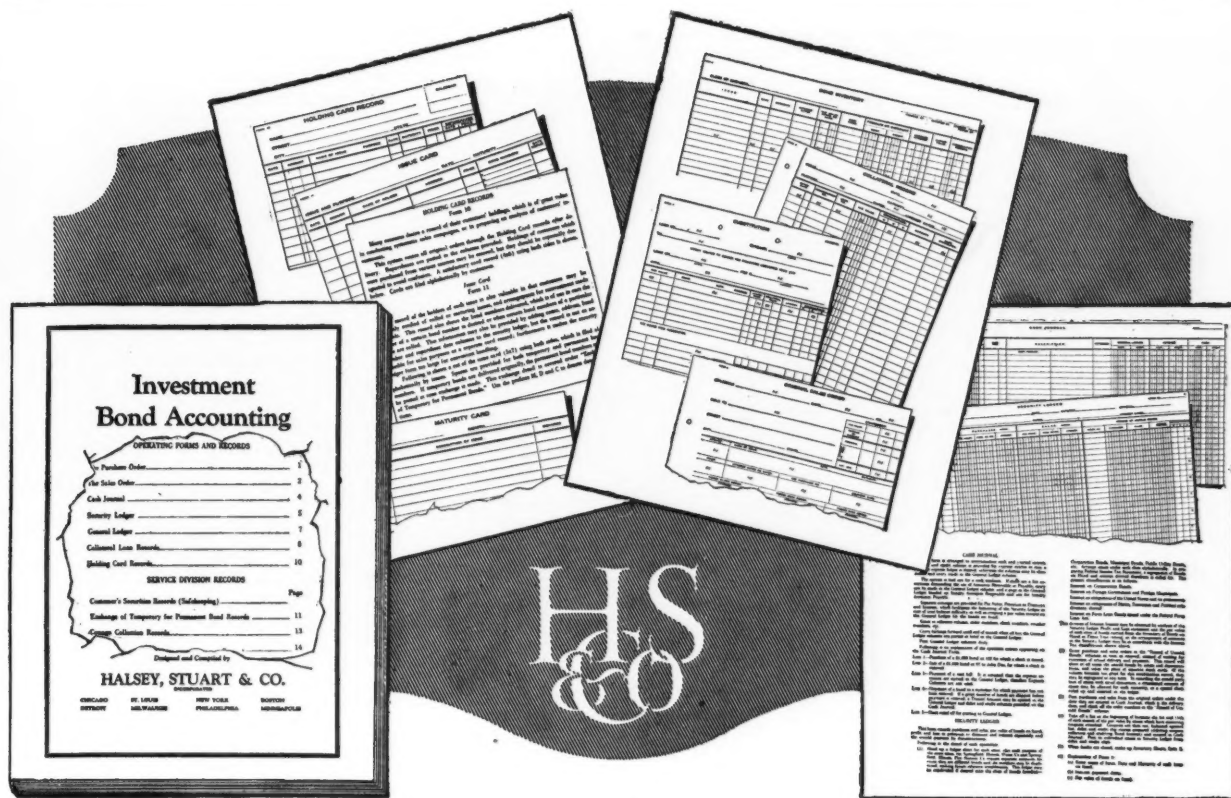
**"T**HE combined reported holdings of European countries increased by \$86,000,000 during 1924 to \$3,074,816,000, the principal changes being the gains of \$70,000,000 by Germany, \$28,000,000 by Russia, \$9,000,000 by Czechoslovakia, \$7,000,000 by Poland and \$7,000,000 by Hungary, whose holdings were not available in 1923. A number of European countries," says the Federal Reserve Bulletin, "lost gold—Sweden, \$9,000,000; Switzerland, \$6,000,000, and the Netherlands, \$31,000,000—but these movements represent only small subtractions from extremely strong reserves.

"Notwithstanding the magnitude of the gold movement from Europe to the United States during recent years, the combined

holdings of European central banks are now substantially larger than they have been at the end of any year since 1917. In that year they were reported at \$3,560,000,000, but in the following year they dropped almost \$500,000,000, owing principally to the loss of the Russian reserve, and during 1919 they declined further by \$184,000,000, owing chiefly to losses by the German Reichsbank. From the low point of \$2,879,000,000 at the end of 1919 gold reserves in Europe have increased by nearly \$200,000,000 to the December, 1924, total of \$3,075,000,000.

"The present holdings of European banks and treasuries are, therefore, about \$250,000,000 in excess of the total reported holdings in 1913, which amounted to about \$2,-

820,000,000. Official gold holdings are, therefore, little changed in aggregate since before the war. The large loss of gold by Europe since before the war represents chiefly gold withdrawn from circulation, together with some gold withdrawn from the arts and from private and public hoards including plate or jewelry. In the process of redistribution sums equivalent to those lost by Russia, Germany and Austria-Hungary have been acquired by England, Sweden, the Netherlands, Switzerland and Spain or in the case of part of the holdings of Austria-Hungary by the banks and treasuries of the secession states. The £156,000,000 now held by England is almost equal to the estimated total stock of £161,000,000 in 1913.



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## Relief for Banks

(Continued from page 666)

mand deposits and 5 per cent of its time deposits; reserve city banks, 15 per cent and 5 per cent, respectively; and country banks, 12 per cent and 5 per cent.

However, it was stipulated that the reserves might be held as follows:

In central reserve cities, 6/18 in its vaults, 7/18 in the Federal Reserve Bank and the balance to be held in its own vaults or in the Federal Reserve Bank at its option.

In reserve cities (3 years after the banks opened), 5/15 in its vaults; 6/15 in the Federal Reserve Bank; the balance in its own vaults or in the Federal Reserve Bank.

In other cities, 4/12 in its own vaults; 5/12 in the Federal Reserve Bank; the balance either in its own vaults or in the Federal Reserve Bank, at its option.

## Lack of Liquidity Causes Bank Failures

IT is possible that the objection will be raised that it would not be safe to lessen the reserve requirements in any way, due to the substantially large number of recent bank failures. This is misleading, for banks, as any banker knows, do not fail on account of low reserves but on account of the lack of liquidity in their assets. Such an objection is not entitled to any weight. For there is nothing practically unsound in the

practice of permitting a bank to carry part of its reserves in its own vaults.

## Why Initial Reserves Were Large

WHEN the Federal Reserve System was organized, it was provided that only one-third of the reserves should be carried in balances with the Reserve Banks. That the percentage was even this high may be attributed, in a measure at least, to the desire to get the System started and to make the operations of the Reserve Banks easy to get under way. It was certainly not then contemplated that the time would come when all of the reserves would be in the vaults of the Reserve Banks, for in 1915 all classes of member banks were permitted to carry one-third of these requirements in their own vaults.

By leaving it optional with the member banks to determine whether the remaining part of the reserves should be kept in their own vaults or in the custody of the Reserve Banks, the law thus classified a certain amount of gold that might be attracted or repelled by the nature of the Reserve Banks' operations. Would it not now be wise, instead of turning over the entire reserves to the Federal Reserve Banks, to give them only a part so that there would be a real incentive on their part to conduct their open market operations in such a way as to attract gold and thus to increase their lending power?

However, it is not proposed that the reserve requirements of the country banks be lessened but that the place where these reserves are kept be changed in such a way as to make it more advantageous for the country bank to belong to the Federal Reserve System. Under the proposed amendment they would be able to make loans without having to carry as much eligible paper in their portfolios as would be required to reconstitute the reserves that are now carried with the Reserve Banks. One of the troubles that the country banker has is getting enough paper that will come within the scope of the Reserve Banks' requirements on eligibility. This would afford a measure of relief.

Or, if the country bank desired to do so, it could leave this part of the legal reserves with its correspondent bank and get at least 2 per cent interest thereon. The agitation that many country banks have made for the payment of interest on their reserve balances has been widespread, but it would be impracticable for the Federal Reserve Banks to meet this demand because they would have to engage in active competition with private banks to make enough money to pay interest. However, my proposal would go part of the way toward satisfying this demand and would do much to bring into the Federal Reserve System hundreds of country banks that have held aloof on account of the loss of interest on these reserve balances.

Perhaps, this will place more of the burden on the banks in the central reserve cities and in the reserve cities but, at the present time, they are deriving sufficiently large benefits to make the Federal Reserve System indispensable to them. The responsibility of maintaining a proper amount of



reserve in the Federal Reserve System is that of the reserve city banks because the small country banks find that they can be better served through their correspondent banks—reserve city banks—than directly through the Federal Reserve System. The reason for this is that the country banks can borrow from their correspondent banks on collateral that is not technically eligible for rediscount with the Reserve Banks, and by close contact and acquaintance with these banks and their officers they are in a position to get other valuable services rendered by the big city banks. It must be remembered that a Federal Reserve Bank is restricted by law to the rediscounting of eligible paper, and while it performs certain services for member banks, it can not go as far as a private institution.

Because of this, the reserve city banks assume a responsibility to the Federal Reserve Banks that properly should be reflected by the maintenance of a larger proportion of the reserves. It is, indeed, time that the country banks be placed on a more equitable basis with the other member banks.

## Return to Gold

(Continued from page 674)

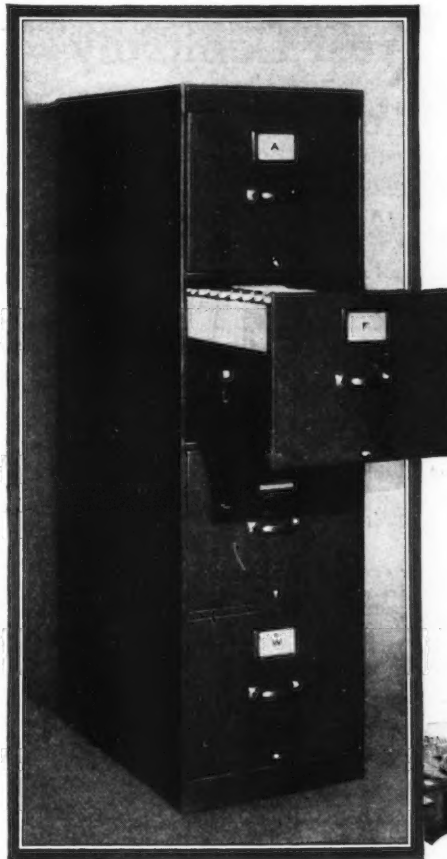
\$300,000,000 credit. The Federal Reserve Bank of New York announced it had arranged to place \$200,000,000 at the disposal of the British government, while J. P. Morgan & Co. had set up a credit of \$100,000,000. In Mr. Roberts' opinion, this action was taken to serve as a warning against speculation in exchange and to provide a virtual insurance policy that the British government would be able to maintain the policy embarked upon and protect the pound sterling from any exchange manipulations. It is doubted that Great Britain will be required to use any part of the credit, for it is generally accepted that the Federal Reserve Board will cooperate with the British government in keeping sterling at par by buying or selling bills.

The details of the arrangement under which the Federal Reserve Bank of New York, in conjunction with the other eleven regional banks, has placed the credit of \$200,000,000 at the disposal of the British government have not been revealed, but it is pointed out that the banks, under the Federal Reserve Act, are empowered to deal in gold, to make deposits in foreign banks of issue and to purchase foreign bills. It has been indicated that the Federal Reserve Bank credit will be held to meet any emergency that may arise, and that, until this develops, it cannot be foretold just how the credit will be used.

In banking circles, it is anticipated that the Bank of England will keep its rediscount rate high enough to attract funds from the United States and other foreign countries. During the period of low interest rates in America, it is well established that a considerable amount of American capital has been invested in British bills to obtain the higher yield, and it is known that American banks have funds invested in the London money center.

Pointing out that British imports exceeded exports during 1924 by £344,000,000, Mr. Roberts states that the ability of Great Britain depends largely upon the

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Condensed Statement, March 25, 1925

### RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers.....	\$109,793,257.00
U. S. Government Bonds and Certificates.....	38,793,120.76
Public Securities .....	20,462,391.12
Other Securities .....	22,353,197.29
Loans and Bills Purchased.....	372,779,251.18
Real Estate Bonds and Mortgages.....	1,731,000.00
Items in Transit with Foreign Branches.....	7,490,120.44
Credits Granted on Acceptances.....	40,231,824.98
Real Estate .....	8,063,296.04
Accrued Interest and Accounts Receivable.....	6,393,938.54
	<b>\$628,091,397.35</b>

### LIABILITIES

Capital .....	\$25,000,000.00
Surplus Fund .....	15,000,000.00
Undivided Profits .....	4,559,461.77
	<b>\$44,559,461.77</b>
Accrued Dividend .....	702,000.00
Accrued Interest, Reserve for Taxes, etc. ....	7,122,766.38
Acceptances .....	40,231,824.98
Outstanding Treasurer's Checks .....	9,125,522.86
Deposits .....	526,349,821.36
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"invisible" items in the country's exchange transactions with the rest of the world. Considering only the imports and exports, there is on the surface a huge adverse trade balance. However, the British Board of Trade, an official institution, has made a calculation showing that, when the invisible items are taken into account, there was a favorable balance of £29,000,000 for 1924 over the adverse balance on merchandise and specie. The net national income from shipping was calculated to be £130,000,000, while the net yield from the earnings of British investments abroad was reckoned to be £185,000,000 in 1924, after allowing for the reduction of investments in the United States and interest payments to this country. The net earnings of bankers, brokers, insurance companies, commission dealers and similar services were cast up at £40,000,000, while the expenditures of tourists and family remittances from abroad and other items added £15,000,000 to the real national income.

Thus while it might seem on the surface that Great Britain boldly took this step in the face of an adverse trade balance while her industries were not running in full swing, a more careful analysis discloses that exchange operations are slightly in her favor.

### Will Help Farmers

THE American farmer will profit from the step taken by the British government, according to the view of Francis H. Sisson, vice-president of the Guaranty Trust Company of New York.

"With sterling ruling at par, the pound will be worth \$4.86 in American money," Mr. Sisson stated. "This means that the purchasing power of Britain and her dominions will be increased. They are the largest buyers of our wheat and cotton and other farm products, so, with a higher purchasing power, they will be in a position to take more of our agricultural products.

"The return of Britain to a gold basis is a great step forward in the post-war financial rehabilitation of the world," Mr. Sisson said. "Its economic significance is universal. Although the action taken by the British Chancellor of the Exchequer had long been expected, and consequently, to a considerable degree discounted in advance, its favorable psychological reaction, nevertheless, will be widespread and effective.

"Under the Exportation Act of 1915, gold in any form was prohibited from export from the United Kingdom, except under a license granted by the Treasury. With few modifications, this legislation has been in effect ever since and was automatically to expire on December 31, 1925, unless re-enacted by further legislation. Meanwhile the Bank of England's gold reserve has increased from £28,748,500 on July 1, 1914, to £153,000,000 at present, and the British Treasury now possesses \$166,000,000 required for the next installment on the British government's debt to the United States government.

"While the most recent movements in sterling exchange have reflected the anticipation of an early official announcement of the British government's plan, underlying the advance of sterling approximately to par has been the funding of the debt to the

United States government, avoidance of inflation, and the improvement in the general industrial situation. These influences have combined to inspire confidence abroad in the early restoration of a free gold market in England."

Mr. Sisson believes that the financial effect will be to draw foreign funds to the London money center.

"The confidence inspired throughout the world by the action of the British government will tend to accumulate funds in London," he continued. "England remains a creditor nation, and most of the debts owing the British are sterling obligations. It may be that restriction on further loans abroad will be continued for a time to assist in the maintenance of the exchange parity. In addition, the discount rate of the Bank of England may be used to encourage the flow of funds to London.

"While the interest of the United States in the general restoration of stable financial conditions throughout the world, as well as our special relations with Great Britain, would naturally lead to the fullest co-operation which may be desired in assuring the success of the undertaking, in last analysis the maintenance of sterling parity, of course, will necessarily rest upon the strength of the British financial position itself."

## Convention Calendar

DATE	STATE ASSOCIATION	PLACE
May 13-14	Maryland	Atlantic City, N. J.
May 13-14	Tennessee	Nashville
May 18-19	Missouri	St. Louis
May 19-21	Texas	Houston
May 20-22	Pennsylvania	Atlantic City, N. J.
May 20-23	California	Santa Barbara
May 21-22	Kansas	Topeka
May 26-27	Oklahoma	Tulsa
May 26-28	Alabama	Mobile
June 3-5	Ohio	Columbus
June 4-6	Washington	Seattle
June 5-6	Connecticut	Swampscott, Mass.
June 5-6	Massachusetts	Swampscott
June 5-6	New England Bankers	Swampscott, Mass.
June 5-6	Utah	Provo
June 11-13	Oregon	Corvallis
June 15-17	Iowa	Dubuque
June 15-19	Michigan	Detroit
June 16-17	Idaho	Lewiston
June 16-17	Wisconsin	Milwaukee
June 18-19	Illinois	Peoria
June 18-20	Virginia	Hot Springs
June 19-20	Colorado	Bear Creek, Denver
June 22-24	New York	Ithaca
June 23-24	South Dakota	Sioux Falls
June 25-26	North Dakota	Devil's Lake
June 25-28	District of Columbia	Hot Springs, Va.
June 26-27	Maine	Bar Harbor
July 9-10	Minnesota	Duluth
July 11-13	Montana	Glacier Park
Sept. 16-17	Indiana	West Baden
Sept. 21-22	New Mexico	Las Cruces
Nov. —	Arizona	Phoenix
Nov. —	Nebraska	Omaha
Nov. —	Nevada	Lovelock
Nov. —	West Virginia	Wheeling

## National Bank of Commerce in New York

Established 1839

### STATEMENT OF CONDITION, APRIL 6, 1925

RESOURCES	LIABILITIES
Loans and Discounts.....\$257,315,348.19	Capital Paid up.....\$25,000,000.00
Overdrafts, secured and unsecured .... 265,362.90	Surplus ..... 25,000,000.00
United States Securities ..... 53,609,360.41	Undivided Profits ... 14,979,529.17
Other Bonds and Securities ..... 6,894,487.75	Dividends unpaid ... 94,698.50
Stock of Federal Reserve Bank ..... 1,500,000.00	Deposits ..... 363,117,391.42
Banking House ..... 4,000,000.00	Bills Payable with Federal Reserve Bank ..... 12,000,000.00
Cash in Vault and due from Federal Reserve Bank ..... 43,571,615.93	Reserved for Interest, Taxes and other Purposes ..... 3,933,890.35
Due from Banks and Bankers ..... 7,995,819.27	Unearned Discount.. 1,083,357.01
Exchanges for Clearing House ..... 77,038,239.44	Acceptances executed for Customers .... 39,243,997.09
Checks and other Cash Items ..... 2,355,042.39	Acceptances sold with our Endorsement.. 9,652,631.33
Interest Accrued .... 998,691.41	
Customers' Liability under Acceptances. 38,561,527.18	
<b>\$494,105,494.87</b>	<b>\$494,105,494.87</b>

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May 10-14	Associated Advertising Clubs of the World, Houston, Tex.
May 19-22	U. S. A. Chamber of Commerce, Washington, D. C.
May 29-30	National Safe Deposit Association, Atlantic City, N. J.
June 8-13	Association National Credit Men, Washington, D. C.
July 14-17	American Institute of Banking, Kansas City, Mo.
Sept. 28-Oct. 1	A. B. A., Atlantic City, N. J.
Oct. 14-16	Financial Advertisers Association, Columbus, Ohio
Dec. 2-5	Investment Bankers Assn. of America, St. Petersburg, Fla.

## On Gold Basis

SECRETARY of Commerce Hoover estimates that, with the return of Great Britain to the gold standard, between 80 and 90 per cent of the international trade of the world is now on the gold basis. The lifting of the British embargo on gold will not have any immediate effect upon the surplus in the United States in his opinion.

Discussing some of the possible unfavorable results which may follow the action of Great Britain, Mr. Hoover said that they would be infinitesimally small as compared with the general gain growing out of the more stable exchange rates.



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To Americans abroad "*11 Rue Scribe*" is a mental haven. Whatever their needs, whatever their desires, "*11 Rue Scribe*" knows all about it—where, and when, and how, to the finest detail.

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As many as 4,000 people a day come here to ask or get something; and seldom, if ever, has one left unsatisfied. 380 employees answer and give.

The American flag flies over the door. Page after page in the human history of American Service was written here in the Summer and Fall of 1914, and every day's work now adds another page—

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## The New Rulers

ON his 91st anniversary Chauncey M. Depew, former Senator and one of America's leading publicists, observed that the business men and the bankers are the new ruling forces of the world. To them he attributed the rehabilitation of several nations during the post-war period of reconstruction.

"The world is governed, but not by people born to rule, not by people of inherited authority, not by people destined apparently by the Almighty for government, but by the business men and bankers of the world," Mr. Depew remarked. "They are the new ruling forces, and their powers grow day by day."

"They may be materialistic in their views; they may lack idealistic and ethical theories; but at the same time they are for law and order, and for that supreme element of stability and justice, the independence and dignity of the individual, his right to earn and his right to be protected in what he earns, and an infallible belief that with home and independence comes the salvation of society."

"Austria had gone bankrupt and was on the verge of a collapse which would have depopulated Vienna. The business men and the bankers of the civilized countries decided that Austria must be saved. Their representative appeared at that great capital. He had with him the money which was necessary for the reorganization and rescue of the city and its territories; he had the power to prohibit and the power to enforce. Austria got the money necessary for her salvation, and a miracle was performed."

"Ancient Hungary was on the rocks. The business men and bankers came to the same conclusion and went to the rescue. The result is that Hungary has been saved and is entering upon a new career. The business men and bankers have saved Germany. They are helping France. The salvation of Europe depends largely on the acceptance of the Dawes plan and that scheme is the work of the business men and the bankers."

"This movement is no ordinary concentration of power in a class or in a business. It is a demonstration that the real power in this world and in all democratic governments is the middle class. In this country the middle class constitutes nearly our entire population. Every man and every woman who is independent, self-supporting and has reached the accumulative period becomes a member of the great middle class. There is nothing now, there never has been anything, which equals the tremendous power of this vast body of people in every community who have active minds, settled principles, firm consciences, warm hearts, sympathetic souls for all and independent spirits to look out and enjoy independent lives."

"When heredity or the ordinary process of liberty and its development had not united this great middle class for its own protection, Providence has raised a leader equal to the task. This was pre-eminently the case in Italy, where, in the darkest hour of Communist triumph and chaos in industry and production, Mussolini organized and consolidated the forces of law, order and individual liberty and has become, by his continuing success, one of the great figures of history."

## 59 per cent increase in Collins clients in 1924

AND 1924 was not a boom year by any means. Banks in many sections were facing grave problems. Many were cutting expenses in every direction. Nevertheless, an unusually large number of bankers who were curtailing in other ways invested in Collins Service as the best and most economical way of securing effective aid in increasing their business. Such banks wanted no theories. They couldn't afford to experiment. So they turned to the largest and best equipped organization in the country for assistance in building up their deposits and increasing their profits.

Here these banks found no uncertainty, no fumbling, no lost motion and no experimenting. The Collins Staff, reinforced by their many years of experience and their intimate knowledge of conditions in every section of the country, took hold quietly but efficiently. They helped these new clients to realize their opportunities to the utmost by direct-mail and other sure methods. They brought these institutions before the people of their communities with results that are eminently satisfactory.

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# The Condition of Business

**Resumption of Gold Payments throughout the British Empire and in Other Countries Marks the Beginning of a New Era in Economic Recovery. Domestic Business Averages Well Above Normal, Although Hesitancy Has Appeared in Some Lines.**

**C**ERTAINLY the return of Great Britain to a gold basis ranks as the outstanding event in business and finance during recent weeks, and many observers proclaim it second only to the adoption of the Dawes plan as the most important sign of the progress which is being made toward normal international relations.

The course of events leading up to gold resumption formed a dramatic chapter in financial history. After touching a low point of \$4.20 in the early part of last year, the dollar rate for sterling began a gradual recovery which carried the pound up to over \$4.80 on January 22 of this year—the highest point in more than a decade. The substantial rise in these twelve months, which occurred despite an increase of 60 per cent during the year in the British merchandise import surplus, reflected principally the operation of four factors: The gradual return to England of capital transferred abroad under fears of inflation and a capital levy; the transfer of funds to London to take advantage of the higher interest rates prevailing there; the remittance abroad of part of the proceeds of foreign loans placed in America, especially after the adoption of the Dawes plan, and the so-called "invisible" items of export. This last is estimated at upwards of £300,000,000 per year and includes receipt of interest payment on British investments abroad, revenues from her merchant marine and other similar items.

## License for the Export of Gold

**W**ITH sterling close to its gold parity, opinion in important English banking circles turned rapidly in favor of the early re-establishment of a free gold market in London, provided, of course, proper arrangements could be made to insure an ample gold reserve. These arrangements were made, and on April 28 the government announced that the Bank of England had been given a general license for the export of gold, although the formal prohibition of such export will continue until the statute expires at the end of this year. To conserve the gold supply for international use, it is proposed to continue within the country the general use of bank notes which has grown up since the beginning of the war. A satisfactory gold reserve has been built up, and the dollar credits necessary for this year's payments on the British debt to America have been accumulated in advance, in order that the treasury may not need to compete for dollars in the exchange market in the fall when large seasonal purchases of cotton, grain and other raw materials are taking place. Finally, a credit

of not less than \$300,000,000 is available in the United States, to be used only if required to forestall speculative attacks on sterling.

Holland and the Dutch East Indies, together with the self-governing dominions of the British Empire, also announced an immediate return to the policy of free export of gold, although, as in the case of Great Britain, the internal use of gold currency is not to be encouraged at present. The important result is that the great commercial countries of the world are one by one getting back to a uniform standard of value. The standard may vary in itself from time to time, but the position of all countries related to it will vary together (to use Chancellor Churchill's figure) like ships in harbor whose gangways are joined and who rise and fall together with the tide.

In the Far East, too, economic progress is evident. A fractional decrease during April in the discount rate at the Bank of Japan—the first decline since the end of 1919—a gradual reduction in the bank's note circulation and strength in the dollar rate for yen exchange have given strong hopes that the post-war financial strain, made worse by the earthquake, is rapidly giving way to more normal conditions.

## Domestic Business Conditions

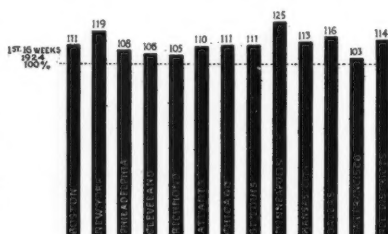
**A** NEWSPAPER correspondent, writing from the Middle West, complains that, "whereas it had confidently been expected that trade would reach substantial proportions in the spring of this year as a result of the good crop returns of last year, actual business so far has been disappointing, and while no marked depression has appeared, trade has been quiet to an unexpected degree."

The available statistical evidence, however, shows that trade activity has been running at a relatively high level. Beginning with July of last year, general business improved with each month until this last March, when indications of hesitation appeared in some lines of industry, notably iron and steel, and in some of the distributive branches. An examination of past rec-

ords of the course of business over a long series of years indicates that there have been only three instances in the past half century in which recoveries of general business have run for longer periods than this one before receiving their first minor setback. The accompanying diagram, prepared by the Federal Reserve Bank of New York, shows the total volume of bank debits in leading centers throughout the country during the first sixteen weeks of this year, in comparison with last year. Since perhaps 80 or 85 per cent of all purchases are made nowadays by check, these figures give a very good picture of buying tendencies. For all districts combined, the gain over last year amounted to 14 per cent, which is much more than the normal rate of increase from year to year. The largest gains occurred in the New York district, where the security markets have been unusually active, and in middle and southwestern districts where returns from wheat and cotton were exceptionally satisfactory to the farmers.

## "Trade Boom" Comparison

**T**O give a fuller picture of the large volume of trade in recent months, the statistics of bank debits and others relating to trade and general business activity in the first quarter of this year are compared in the following table with those for the first quarter of 1920, when the "trade boom" of that year was in full swing. The figures are compiled from reports of the Federal Reserve Bank of New York and show various indexes of trade as percentages of an estimated normal—a condition of business about midway between the peaks of prosperity and the valleys of depression. Allowance is made in the bank's computations not only for usual seasonal variations, but also for normal year-to-year growth, since it is to be expected that the gross figures would be larger now than they were five years ago. Wherever dollar figures are involved, adjustment has been made for changes in the general price level of the items involved. In short, the figures show what business was in these two quarters in comparison with what might normally have been expected:



Bank Debits—This year and 1924.

	First Quarter 1925	First Quarter 1920
<b>Primary Distribution</b>		
Car loadings, mdse. & misc. ....	109	111
Car loadings, other....	109	108
Wholesale trade, Second Dist. ....	97	107
Exports .....	95	128
Imports .....	110 p	118
<b>Distribution to Consumer</b>		
Department store sales, Second Dist. ....	100	101
Mail order sales.....	97	109
Life Insurance paid for.	99	104



# INDUSTRIAL ACCEPTANCE CORPORATION

New York

Capital and Surplus - - - \$6,781,000

## Statement of Condition as at January 31, 1925



### ASSETS

Cash Resources:	
Cash in Banks and on Hand . . . . .	\$3,487,738.34
Cash in Trust, Studebaker Dealer Collateral Trust Gold Notes . . . . .	755,138.72
	<u>\$4,242,877.06</u>

Studebaker Dealers' Notes & Acceptances . . . . .	16,448,861.12
Accounts Receivable . . . . .	74,873.37
Earned Interest . . . . .	66,430.75
Deferred and Prepaid Expenses . . . . .	138,430.51
Furniture and Fixtures, less Depreciation . . . . .	54,694.75
Good-Will and Other Intangibles . . . . .	1,570,000.00
	<u>\$22,596,167.56</u>

Contingent Liabilities . . . . . None

\*Industrial Finance Corporation, our predecessor, guarantees payment of all receivables purchased from them as of December 31, 1924.

### CERTIFICATE OF AUDITORS

We have examined the books and accounts of Industrial Acceptance Corporation for the purpose of verifying the assets and liabilities as at January 31, 1925, and certify that the foregoing Balance Sheet has been prepared therefrom and, in our opinion, correctly presents the financial position of the Company at Jan. 31, 1925.  
New York, N. Y. February 27, 1925

PEAT, MARWICK, MITCHELL & Co.

At statement date, bank lines aggregated approximately \$30,000,000 with open lines more than 75% of the total.

### LIABILITIES

Capital Stock:	
First Preferred . . . . .	\$4,000,000.00
Second Preferred . . . . .	1,500,000.00
Common — 200,000 Shares, no Par Value . . . . .	1,281,111.29
	<u>\$6,781,111.29</u>

Collateral Trust Gold Notes Outstanding . . . . .	14,828,500.00
Notes Payable (Canadian Operations) . . . . .	416,959.03
Drafts in Transit . . . . .	272,000.00
Accounts Payable . . . . .	35,861.78
Accrued Interest . . . . .	26,088.66
*Reserve for Unearned Discount, and Other Items . . . . .	235,646.80
	<u>\$22,596,167.56</u>



## Collateral Trust Gold Notes

(The National City Bank of New York, Trustee)

Regarded by a nationwide banking clientele as appropriate investment for short term funds.

Sold under customary option in any maturity from 2 to 12 months.

### Offices

NEW YORK  
100 EAST 42ND STREET  
CHICAGO  
105 SOUTH LASALLE STREET  
SAN FRANCISCO  
225 BUSH STREET



*Financing Exclusively Dealers of*  
**THE STUDEBAKER CORPORATION  
OF AMERICA**

General Business Activity	First Quarter 1925	First Quarter 1920
Bank debits, outside N.Y.		
City .....	110	107
Postal receipts .....	98 p	104
Electric power .....	105 p	108
Building Permits .....	163	73

p—preliminary.

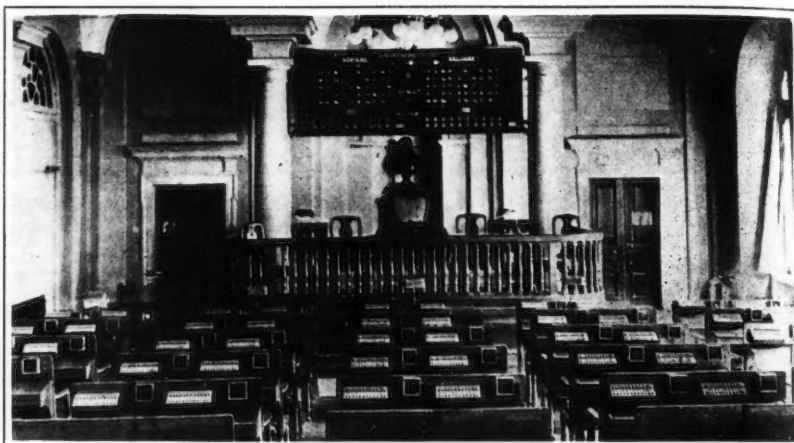
Perhaps the two most significant index numbers in the table are those for railway car loadings of merchandise and miscellaneous freight and the volume of bank debits outside New York City. In both of these cases the figures for the first quarter of 1925 were about the same as five years earlier, when a great trade boom was thought to be on. The reason that the present high rate of business is frequently not recognized appears to lie in the absence of competition for supplies of goods and labor, in the lack of runaway prices for industrial commodities and in the small volume of forward orders.

### Do Not Indicate Inactive Business

**B**UT under the conditions which have recently prevailed in industry and trade, the absence of these familiar earmarks does not necessarily indicate inactive business. In the early months of 1920 prices of manufactured goods were advancing rapidly and, as is usually the case under such circumstances, buyers felt it necessary to protect themselves by placing orders far in advance. The labor situation was highly uncertain, and the frequent congestion of freight on the railroads, which were laboring to restore normal operating conditions, made it unwise for buyers to count on keeping stocks in shape on the basis of orders for immediate needs. During the recent period of business recovery, however, these inducements were noticeably lacking. Adequate plant capacity, greater efficiency in management and quick transportation service made it possible for purchasers to order conservatively, avoiding large forward commitments and the tying up of capital in warehouse stocks.

"It seems entirely unlikely," notes the Cleveland Trust Company, in a recent bulletin, "that the present period of better than normal business is nearing its end, as many who write on such subjects profess to fear. Credit conditions are excellent; industrial employment is steadily increasing; building construction is going forward in large volume; railroad transportation is notably efficient; stocks of goods are not excessive, and the fact that hand-to-mouth buying has become an established trade custom means that production cannot greatly decrease unless national consumption is sharply reduced. Many previous periods of prosperity have lasted for a long time when fundamental conditions appeared less favorable than they do at present. It is not probable that the present period is going to produce so sharp a departure from a long established series of precedents as it would if it should come to an end in the near future."

During the next few months, the prospects for the crops here and abroad will be business news of the first importance. Developments of the past year have resulted in a well balanced situation as between agriculture and other lines of business, and the



Underwood & Underwood

*A noiseless stock exchange: not in the United States, of course, in Sweden. Instead of shouting their bids and acceptances, brokers on the Stockholm Exchange merely push an electric button and instantly the highest figure offered is recorded on the board in front.*

outcome of the crops this year will probably determine to a large extent the character of business after mid-summer.

A moderate recession in some lines of trade, reduced activity in the security and commodity markets, further reduction in the rate of gold exports and government disbursements for interest on April 15 were the principal factors contributing to somewhat easier money conditions in April, particularly in the interior financial centers. Sales of commercial paper at  $3\frac{3}{4}$  per cent were more common than in March, and a larger demand developed for bankers' acceptances and short term government securities.

The gold outflow has slackened materially since the heavy movement in January. Preliminary figures for the port of New York for most of the month of April showed exports of about \$14,000,000 and imports of \$5,300,000. Exports included additional withdrawals totaling \$10,000,000 by the German Reichsbank of gold earmarked for its account some time ago in this country, and hence they were not a factor in the current money market. Omitting these withdrawals for shipment, there was very little net movement of gold either in or out of the country through New York during April. An additional \$1,000,000 was reported sent to Australia from San Francisco.

Recent balance sheets of many large corporations disclose a policy of keeping strong in cash and quick assets and of reducing bank borrowings as much as possible, and the prevailing policy of hand-to-mouth buying has also tended to make for easier money conditions. When large inventories are carried, the merchant must borrow larger amounts than when smaller ones are carried, and the tendency toward rapidly rising prices, which often results when such a policy becomes general, often helps to tighten money rates. The rapidity and efficiency of transportation during recent months have prevented goods from piling up and have been a factor in keeping interest rates relatively easy.

Prices of industrial stocks recovered in April about half of the loss sustained dur-

ing the sharp reaction in March, but among railway stocks the recovery was generally small. The easier conditions in the money market were reflected in higher prices for bonds. High-grade corporation issues reached approximately the high levels of 1922, and United States Government bonds also made new highs for the year, but foreign bonds, other than those of the United Kingdom, which advanced along with sterling, were generally lower than in previous months.

After attaining in the week ended January 10 the highest rate of output in four years, mining of bituminous coal swung rapidly downward, and by the middle of April had fallen nearly 50 per cent. This course followed closely the trend of events during the same period a year ago, and calls attention again to the fundamental character of the difficulties which still confront the industry.

A report of the Federal Coal Commission two years ago pointed out that there are more mines and more miners than the needs of the country require. "This condition of over-development is the underlying cause of the instability of the industry. We do not know accurately the extent of the burden, but it may well be measured by the cost of keeping in the industry an excess of perhaps 200,000 miners and their families and the excess investment in the mines." In consequence of the excess capacity of the industry, employment has been irregular and labor unrest frequent. The causes of this over-development were found in car shortages, unnecessary seasonal operations and in periodic strikes. Strikes and car shortages resulted in large profits from enhanced prices of coal, and this in turn stimulated speculative expansion in the industry. Gradual elimination of car shortages on the railroads and the tendency among large consumers to store coal has relieved the situation insofar as the railroads are involved. The agreement early last year to extend the existing wage scale and working conditions for a period of three years was expected to result in a prolonged period of production undisturbed by labor troubles.

# How You Can Develop More and Better Rural Accounts

"BANKS, like every other business, are looking for more customers," declares former Secretary of Agriculture E. T. Meredith.

No banker will dispute that statement. Increase of profitable customers is the life-blood of banks as well as of any other enterprise.

The rural banker has one good source from which to draw increase of customers—the farmers of his community. The bank with a rural background will be prosperous in proportion to the number of its profitable farmer accounts.

Thousands of banks could increase their prosperity to a surprising extent by getting into closer touch with the farmers, by taking account of the many ways in which bankers can "help the farmer to help himself."

## The Agricultural Commission of the American Bankers Association

The Agricultural Commission of the American Bankers Association does not attempt to teach farmers how to farm. But in every state in the Union it is pointing out to the farmer how he can help himself; how he can apply the principles of sound economics to the business he is engaged in; how he can better his markets, multiply his profits by diversifying his crops, combat diseases, keep records that will show him exactly where he stands; how he can conduct his business as efficiently as any other business man.

Under its direction and leadership, bankers are cooperating with farmers in innumerable practical ways.

## The Banker-Farmer

The official organ of the Agricultural Commission is **The Banker-Farmer**, a monthly publication issued at Madison, Wisconsin. Each number of **The Banker-Farmer** tells what bankers are doing to help the farmer help himself. It cites concrete examples of things done and results achieved.

It explains just how bankers have cooperated with farmers, to the decided advantage of both.

It carries stories of bankers who tell in their own words how profitable they have found it to encourage farmers in the purchase of purebred livestock and selected seed.

## Typical Articles

The following excerpts are from articles printed in past numbers of **The Banker-Farmer**. Articles on subjects as interesting and important to bankers appear in every number:

How an Idaho Bank Helped to Increase Community Cream Receipts from \$1,000 to \$15,000 Within Two Years.

Georgia Banker Tells Why Loans on Dairy Cows Are the Safest Loans He Makes.

How a Nebraska Bank Brought a Farmer from Bankruptcy to a Net Profit of \$2,000 a Year.

Banks in a Southern Community Lend 30 Boys a Total of \$750. Profit of \$132 on Each Boy's Acre of Cotton.

Country Boys and Girls with Average Bank Accounts of \$101.42 and an Average Property Value of \$310.21.

How and Why the Deposits of a Farmers' State Bank Were Doubled.

Texas Banker Explains How Farmers Have Swelled the "Rainy-Day" Fund.

Bankers Are Shown How Corn Yield Was Raised from 18 to 77 Bushels Per Acre.

How a Kansas Bank Brought in Cream Checks Amounting to \$8,369.30.

North Dakota Banker Proud of the Fact That His Bank Is Referred to as "The Cow Bank."

President of the Georgia State College of Agriculture Shows That Educated Leadership Increases the Earning Capacity of Farmers 600 Per Cent.

How Butler County, Pa., Bankers Doubled a Crop Yield.

A State Commissioner of Agriculture Wonders Why the State Should Send Out \$220,000,000 a Year for Food Products.

Colorado Bank Advertises \$50,000 to Loan on Dairy Cows.

Why a Group of Mississippi Farmers Are Now Adding to Deposits Instead of Asking for Loans.

Bank Ads That Added Business.

Former Secretary of Agriculture Meredith Points Out That 600 Boys' and Girls' Club Champions Have Bank Accounts Averaging \$111.10 and Own Property Averaging \$172.36.

Larger Incomes Per Acre Discussed by Delaware Bankers and Farmers.

Farm Records Show Why the Farmers of One Wisconsin County Reap an Income Averaging \$1,000 Per Farm More Than That of Their Neighbors.

Successful Farmers More Valuable to Banks Than Sheriff's Sales or Foreclosure of Chattels, Says Dean Russell.

Why an Indiana Bank Wouldn't Be Without Its Farm Field Man.

A Director of Agriculture Extension Asks Why an Agricultural County Should Send Out \$220,000 in One Year for Eggs.

How a Bank Helped a Boy to Raise a Calf That Sold for \$325.50.

Minneapolis Bank Credits Its Growth Largely to Increase of Dairying in the Surrounding Territory.

Why Farmers Should Prefer Bank Credits to Store Credits.

One More Bushel Per Acre Would Mean \$1,000,000 More to Michigan Corn Growers.

It gives space to bankers who tell why farmers should prefer bank credits to store credits.

It presents facts and figures on increase of incomes resulting from the application of sound business methods to agriculture.

It shows by dollars-and-cents statements how much our country boys and girls can be made to contribute to prosperity.

It contains interesting practical articles from the presidents, deans, and directors of agricultural colleges, from bankers and

others who have specialized in the economics of agriculture, and from successful farmers. Its editorials are constructive and always to the point.

## The Easy Way to Profitable Farm Accounts

Every issue of **The Banker-Farmer** is rich in information that the banker can use to attract farm accounts through effective cooperation with farmers.

It is a storehouse of concrete facts; of things not only projected, but done; of results not merely estimated, but achieved.

The subscription price is \$1.00 a year in the United States—\$1.12 in Canada. In any single issue you may find a suggestion or read of a method of cooperation that you can use to add to the number of your farmer depositors; make your rural accounts an asset of real and substantial value.

In no other way can you so easily, surely, and quickly develop profitable farmer accounts as by becoming a regular reader of **The Banker-Farmer**.

## Sample Copy Free

We believe that every banker who knows about the official organ of the Agricultural Commission of the American Bankers Association will want to read it regularly. We know that the best way to get a line on the value of **The Banker-Farmer** is to see it and read it.

For this reason we will send to you upon request a sample copy of the publication, with full information about its purposes and policy. Simply have your secretary or stenographer fill out, clip, and mail the convenient coupon, and the sample copy will be sent to you at once.

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# Banks Burdened by State Taxes

**The Legislative Tendency in a Number of States Since 1923 Has Been to Revise Tax System so as to Harmonize with the National Law but There Is Unfair Discrimination and Injustice in Many of the Methods Under Existing Laws. Banks Affected by New Laws.**

**A** GREATER burden of taxation is imposed by the states than by the Federal government, for in 1923 the states and subdivisions thereof collected a total of \$7,716,000,000 in taxes while the Federal government collected but \$3,223,000,000.

The Supreme Court of Wisconsin has just held that there is no money capital in competition with national banks; therefore the general property tax upon banks is valid.

The Supreme Court of California has just held that the inheritance tax of California can be imposed on an estate before the Federal estate tax has been deducted.

These and many other matters of vital interest to banking are contained in the report of Thornton Cooke, president of the Columbia National Bank of Kansas City, Mo., Chairman of the American Bankers Association Committee on State Taxation, presented at the Spring Meeting.

"Prior to the 1923 amendment of the national law," the report says, "the states were restricted in their taxation of national banks, aside from their real estate, to taxation of the shares as the personal property of the shareholders and at no greater rate than was imposed upon other moneyed capital in the hands of individual citizens of the state. The states generally conformed their systems of bank taxation to that prescribed in the national law so that state and national banks were taxed in the same manner. The amendment by Congress in 1923 enlarged the basis of taxation of national banks so that in addition to the share taxation the states, as an alternative were permitted to tax the income of national banks but at no higher rate than that assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing state upon the net income of mercantile, manufacturing and business corporations doing business within the limits of the state. A second alternative was permission to the states to tax the dividends instead of the shares by including such dividends in the taxable income of the owner of the shares. The states were limited to one only of these three forms of taxation: (1) taxation of the owner upon his shares; (2) or upon his income; (3) or taxation of the national bank upon its income.

## A Legislative Tendency

"SINCE the establishment of this new basis in 1923, the legislative tendency has been in a number of states to revise their tax systems of banks so as to harmonize with the national law and there has been a movement in some states looking toward change of the basis of taxation so that

banks should be taxed on their income in lieu of taxation on the shares.

"In 1923 the legislature of Massachusetts while retaining the tax on bank shares gave the banks an option, in lieu thereof to elect each year to pay 12½ per cent tax on the net income of the bank with deduction from income of interest received on securities of the Federal Government.

"In Wisconsin, a law was passed in 1923 which retained the property tax on bank shares and placed competitive moneyed capital as defined by Congress in the same class; but the law contained a proviso that if it should be finally held that the property tax provisions were invalid in their application to national banks, then all holders of bank shares and of competing moneyed capital should be assessed and taxed in the same manner as other corporations and persons under the Income Tax Law. The Supreme Court of Wisconsin by a 4 to 3 vote has just held in *State v. First National Bank of Hartford* that there is no moneyed capital in competition with national banks and that therefore the General Property Tax upon banks is valid, notwithstanding other moneyed capital is taxed at lower rates. The bank will appeal. A new bill is pending in the present legislature to place banks on an income tax basis.

## Taxes in Massachusetts

"EARLY in 1924 the governor of Massachusetts appointed a special commission to make an investigation of the entire problem of bank taxation and provide a solution. This commission after an extensive investigation made a report in 1925 and prepared bills to carry out their investigation under which every bank should pay annually a tax measured by its income at a rate as determined by the commissioner equal to the average rate which the excise tax paid during the preceding taxable year by domestic and foreign corporations, is upon the net income of such corporations. A separate system of taxation was recommended for savings banks and savings departments of trust companies namely that they be required to pay the commissioners on account of depositors an annual tax of 6 per cent levied upon so much of income as would be taxable in the hands of an individual or trustee. It is too early to report whether these bills have been passed by the Massachusetts legislature.

"A bill was introduced in the state of New York this year to amend the tax law to put banks on an income basis the same as corporations, but the bill died.

"Some of the state legislatures this year have amended their laws in regard to the taxation of banks but it is too early for any complete report.

"In Kansas a millage tax on intangible property of 2½ mills is provided in lieu of all other taxes and a mortgage registration act has been passed which provides a flat fee of 25 cents per \$100 on real estate mortgages and exempts them from all other tax.

## A Fairer Basis in Kansas

"IN Nebraska, heretofore, the banks have paid on the full valuation of the shares. This year they succeeded in having a law passed fixing the value at 70 per cent of capital, surplus and undivided profits, placing the banks on a fairer basis as compared with real estate which is assessed generally in Nebraska at not more than 70 per cent of actual value. The law providing for taxation of intangibles was also amended so as to provide that money and deposits in banks should be taxed at 2½ mills while other intangible property pays 5 mills. The legislators hope this bill will bring about a greatly increased declaration by individuals of deposits in banks and other cash funds in view of the very low rate given them.

"In Ohio a franchise tax of 1/12 of 1 per cent is imposed on domestic and foreign corporations under a law passed this year.

"In Pennsylvania, the shares of banks, state and national, have paid a state tax of 10 mills on the amount of capital with an option to pay 4 mills on combined capital, surplus and undivided profits, while trust companies have paid a flat rate of 5 mills on combined capital, surplus and undivided profits. A bill is pending and reported likely to pass which provides a uniform tax rate of 4 mills on combined capital, surplus and undivided profits. This bill would equalize the bank tax and would be in full conformity with Section 5219 U. S. Revised statutes.

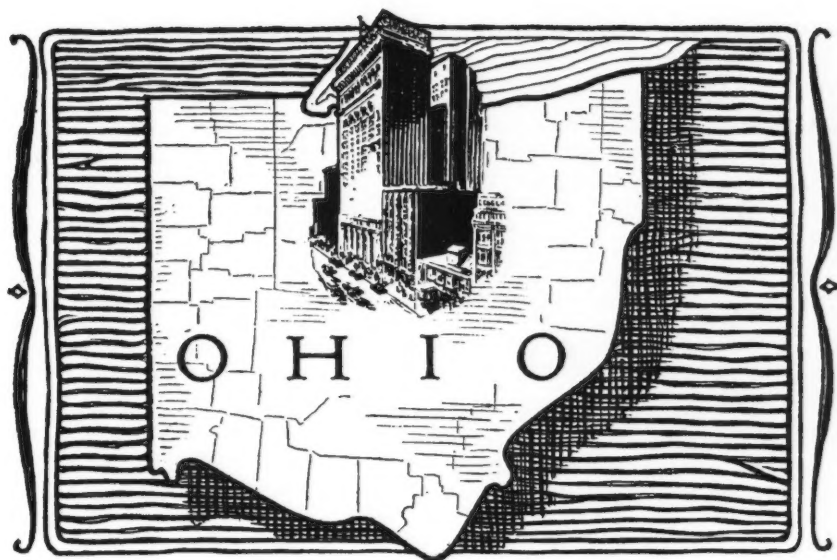
"In Utah, the law taxing bank shares has been amended so that the total value of the shares shall be ascertained by adding their capital, surplus and undivided profits.

"In Vermont a new intangible tax law has been passed, with a provision that moneyed capital in the hands of individual citizens coming into competition with the business of national banks as described in Section 5219 U. S. Revised Statutes shall not be deemed moneyed capital within the meaning of the Act.

## Inheritance or Death Taxes

"ON the subject of inheritance or death taxes, the state of Nevada by bill approved February 23, 1925, had repealed the inheritance tax law in force in that state. Florida and Alabama are the only other states which have no inheritance tax

## THE GUARDIAN BANK—HELPFULNESS



**T**HE Ohio tradition of integrity and neighborliness finds definite expression in the Spirit of Helpfulness with which The Guardian co-operates with correspondent banks.



*The* **GUARDIAN**  
**TRUST COMPANY**  
CLEVELAND, OHIO

*One of the Twenty-five Largest Banks Outside of New York*



## TOBACCO

**M**ICHIGAN ranks high among the States as a manufacturer of products made from tobacco.

Twenty million pounds of raw tobacco are annually required for manufacture in Michigan. It goes into Cigars, Cigarettes, Snuff, Smoking and Chewing Tobaccos.

But little of this raw tobacco is grown at home. This bank has thus become an important link in the importation, manufacture and distribution of tobacco. It offers unequalled facilities for serving all having business in the Great Lakes Region.

## FIRST NATIONAL BANK DETROIT MICHIGAN

*The First National Bank, the Central Savings Bank and the First National Company of Detroit, are under one ownership.*

law. The state of New York has, this year, passed a law (Ch. 143 L. 1925 taking effect July 1) imposing a flat rate of 2 per cent on the personal property of non-resident decedents within the state with an option to an executor to furnish a complete statement of all assets and liabilities and after deducting a proportionate amount of indebtedness from the New York assets, to pay 3 per cent upon the net estate. This law follows similar 2 per cent flat rate laws in New Hampshire, Connecticut, Kentucky and Virginia, but the optional 3 per cent feature payable on the net estate is a modification and an improvement. In view of the inheritance tax systems in the different states and the multiplicity of taxes and de-

lay and expense caused by several states taxing the same estate of a non-resident decedent, the Trust Company Division of the American Bankers Association has appointed a committee which is now at work upon the investigation of this subject with the view of determining and recommending remedial legislation. The National Tax Association as a result of a recent tax conference held in Washington by state and Federal officials has also created a National Committee to draft a program for the reform of state and Federal estate tax policies. The functions of this committee as announced are the gathering of information and data necessary to formulate definite plans for the reform of state and Federal death

taxation; gives special attention to the feasibility of early or gradual retirement of the Federal government from the field of death taxation; and then to formulate such plans, model laws and recommendations as it sees fit and present this for consideration to Congress also to state legislatures and committees and to the proper officials and branches of government having in charge the levying and administration of death taxes. Our Committee on State Taxation will cooperate in this movement for inheritance tax reform.

"In connection with this subject, it is interesting to report that the Supreme Court of the United States has just decided (April 13) that the inheritance tax of California can be imposed upon an estate before the Federal estate tax has been deducted.

## Great Variation Between States

**"T**AXATION by the states and their political subdivisions is more important and more burdensome than taxation by the Federal government as is evidenced by the fact that in 1923 the taxes collected by the former were \$3,223,000,000 while states, counties, cities, townships, road districts, irrigation districts and other political subdivisions collected \$7,716,000,000. The variations between states in the taxation applied to banks is great and the injustice in the taxation of banks is burdensome. There is evident a tendency toward centralization in the administration of bank taxation. The State Tax Commission, the State Auditor or State Treasurer, as the case may be, are being charged with the administration of income taxes, inheritance taxes and excise taxes; and this is important because another evident tendency is toward changing from the general property tax in many states to the income tax so far as banks are concerned. Through Judge Paton, the General Counsel of the Association, your Committee is kept informed of the statutory provisions concerning taxation in the several states, and believes the time has now come when a questionnaire should be directed to well-informed bankers and perhaps to the public authorities in the various states to bring out how the legal provisions as to taxation are practically applied, whether with fairness to the banks, and with what economic and financial effect.

"In conducting this questionnaire, we shall endeavor to work with the Committee of the National Tax Association above referred to so as to avoid duplication of effort and obtain the maximum of information. Those interested in the subject of taxation will, by the way, find a mine of information in the annual reports of proceedings of that association in which changing legislation and changing tendencies in the methods in force to procure from our people and our business institutions the money needed to conduct national, state and local governments, are presented thoroughly.

"Your committee reports generally, therefore, that it is still engaged in the collection of facts and data showing how tax laws operate in actual practice, especially in their application to banks, and that in due time it hopes to formulate and recommend remedial legislation and changes of method.



## Currency Reform

(Continued from page 682)

their total foreign payments were to be since these fluctuate widely from year to year. They cannot be estimated, and even if they could be, the knowledge would not alter the economic situation.

"The argument then, in other words, is that countries cannot maintain stable currency systems and exchange rates if large foreign payments are to be made, unless perhaps it is possible to build up a 'favorable' balance of trade, that is, an excess of exports. A stable currency, however, fortunately is not dependent upon a 'favorable' or 'unfavorable' balance of trade. Before the war Great Britain had long had an excess of merchandise imports and the United States had long had an excess of merchandise exports, yet both currencies were stable. Furthermore, the size of the 'favorable' or 'unfavorable' balance fluctuated widely from year to year, yet neither country had fears that it would lose all its gold and the question was never raised that the gold standard and currency stability were dependent upon the balance of trade. International debits and credits, although they may be payable in gold, are seldom paid in actual gold, but in commodities and services. If gold moves, generally it is because it has a greater purchasing power in one country than in another.

"Price adjustments in the different countries protect the currency systems. If an excessive amount of gold tends to go out, interest rates are raised and funds from abroad are attracted to the country. Also a fall in prices takes place, encouraging the exportation of sufficient goods to meet the required foreign payments and providing a supply of foreign bills. This is a well-known part of price and foreign exchange theory."

### Early Conference Desirable

AS to the appropriate time for convening an international conference, Dr. Young maintains that it should be held in the "not very distant future," now that Great Britain and Holland have made the momentous announcement of the return to gold. He thinks that at an early date the representatives of the various nations should get together and tackle the sizable job.

"One of the chief ends of such a conference might properly be the unification of currency units and systems as far as possible," Dr. Young states. "The newer states have been or are now adopting new units as they stabilize in relation to gold, in spite of the fact that too many different units already existed. There are now twenty-seven different currency units in Europe, as compared with only ten really distinct units in 1913.

"Most of the new units are admittedly temporary, and the states hope later to harmonize them with other units, but the longer they exist the more difficult does change become. The present, when so many currencies are in a flux or in process of change, is an unusually opportune time to accomplish greater currency uniformity than has existed in the past.

"The introduction of the decimal system



## STATISTICAL

**F**REQUENTLY, information is wanted about a particular security—such as the present market value of a bond, financial status of the company, corporation or community responsible for it, the name of the underwriting house that issued the security, etc. Our Statistical Department can furnish this information quickly and easily.

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into British currency has come up for consideration at various times, but the difficulties of tradition and other matters have hitherto been insurmountable. The United States should be prepared to do its part in the adjustment of international units to a common basis. The British 2-shilling piece is worth 48.66 cents. If this and the American 50-cent piece were brought into harmony, the two countries would have a uniform unit which would be suitable for all countries to adopt. Contracts could be easily adjusted by arithmetic to conform to the new units."

As to the agenda for the currency conference, Dr. Young lists a number of

questions, indicating the belief that such a parley could take action that would cause less fluctuation in the future value of gold than the world had experienced in normal times in the past. Foremost is the question of what measures the different countries would have to take in order to reintroduce the gold standard. Others are: Agreement as far as possible regarding the time and method for currency reform; arrangements for financing currency reform in countries where such financing is necessary (this would probably take the form of loans in the United States or elsewhere to be taken in actual gold from the United States, such as the recent German loan);

# The CONTINENTAL and COMMERCIAL BANKS

CHICAGO

Statements of Condition April 6, 1925

## CONTINENTAL and COMMERCIAL NATIONAL BANK of CHICAGO

## Resources

Time Loans . . . . .	\$136,500,584.72	
Demand Loans . . . . .	114,579,141.62	
Acceptances . . . . .	8,785,223.97	
Bonds, Securities, etc. . . . .	17,806,455.52	\$277,671,405.83
U. S. Bonds and Treasury Notes . . . . .		42,783,984.00
Stock of Federal Reserve Bank . . . . .		1,200,000.00
Bank Premises (Equity) . . . . .		7,900,000.00
Customers' Liability on Letters of Credit . . . . .		5,804,562.37
Customers' Liability on Acceptances . . . . .		1,849,116.53
Overdrafts . . . . .		14,833.52
Cash and due from Banks . . . . .		130,616,636.05
		<u>\$467,840,538.30</u>

## Liabilities

Capital . . . . .	\$ 25,000,000.00	
Surplus . . . . .	15,000,000.00	
Undivided Profits . . . . .	6,194,631.07	
Reserved for Taxes . . . . .	2,066,856.98	
Circulation . . . . .	50,000.00	
Liability on Letters of Credit . . . . .	6,316,980.41	
Liability on Acceptances . . . . .	2,021,069.36	
Deposits } Individual . . . . .	\$248,369,933.73	
} Banks . . . . .	162,821,066.75	
		<u>\$411,191,000.48</u>
		\$467,840,538.30

## CONTINENTAL and COMMERCIAL TRUST and SAVINGS BANK

## Resources

Demand Loans . . . . .	\$ 33,294,698.24	
*U. S. Government Bonds and Treasury Notes . . . . .	35,793,573.19	
*Bonds due in 1925 to 1927 inclusive . . . . .	23,005,100.28	
*Other Bonds . . . . .	7,141,987.03	
Cash and Due from Banks . . . . .	17,957,470.19	\$117,192,828.93
Time Loans . . . . .		22,170,410.09
		<u>\$139,363,239.02</u>

\*Adjusted to cost or market price whichever is lower.

## Liabilities

Capital . . . . .	\$ 5,000,000.00	
Surplus . . . . .	10,000,000.00	
Undivided Profits . . . . .	1,377,976.78	
Reserved for Taxes, Interest and Dividends . . . . .	1,562,858.99	\$ 17,940,835.77
Demand Deposits . . . . .	\$ 31,071,947.68	
Time Deposits . . . . .	54,581,260.40	
Special Deposits . . . . .	35,769,195.17	
		<u>\$121,422,403.25</u>
		\$139,363,239.02

Total Deposits . . . . . \$532,613,403  
Total Resources . . . . . 607,203,777  
Invested Capital over . . . . 62,000,000

how far countries could go regarding guarantees for the maintenance of free gold markets, especially as regards certain foreign deposits, so that countries choosing to keep part of their reserves on deposit abroad would be assured that these deposits could be withdrawn in gold; plans for regulating international gold movements through the establishment of clearing arrangements whereby debits and credits could be offset against each other through a settlement fund or funds with only periodical gold shipments; methods of utilizing and economizing gold with a view to stability in value; uniformity of currency units and systems as far as possible; arrangements for interchange of circulation along lines similar to those provided in the Latin Monetary Union or the Scandinavian Monetary Union.

While the United States has a lively interest in the reform of European currencies, Dr. Young believes that it can do little of its own initiative toward reform. However, when such an object is undertaken, the United States can cooperate. In the meantime, its paramount obligation is to see to it that the value of gold remains stable.

### Director's Knowledge

(Continued from page 690)

figures. The liability ledger of many banks is kept in this unsatisfactory manner, thereby nullifying one of the chief objects of the ledger—to furnish a comprehensive history of each customer's borrowings from the

bank, indicating whether his line is increasing, decreasing or standing still, also whether he is prompt in taking care of his maturing paper or whether it habitually becomes overdue. If directors cannot quickly perceive a borrower's liability to the bank from an examination of the liability ledger, they are in the dark on that important point, or must place themselves in the position of constantly taking some other person's word for it. Directors approving excessive loans, more frequently than not, state they did not know the borrower's line was excessive.

### Watching Bank Loans

TOO often loans are submitted for approval without any reference being made to advances already made by the bank to this borrower, oftentimes without any information being given whether the note is a new advance or a renewal. There is a woman director in a Mid-Western city who was asked by the examiner if the bank held any loans exceeding the legal limit. She said she was sure they did not have any such loans, but when questioned as to the total borrowings of Smith, or Jones, or Brown, she said she did not know and she did not think it would be ethical for her to inquire so closely into the business affairs of people who might not want this detail of their business known.

Several excessive loans were then brought to the attention of the board members, all of whom professed ignorance of same, saying these matters were usually left with the cashier who was supposed to know the law and was paid by them to see that it was observed.

Further investigation developed the fact that none of these directors ever saw the actual notes held by the bank, taking the cashier's word for it that such loans were made by him as read from the discount register at the monthly meetings. This is a dangerous practice and leads to temptation and actual forgeries and embezzlements.

The active vice-president of a large bank recently testified in court when being tried on the charge of receiving deposits when the bank was in a failing condition, that several large forged notes had been placed in the note case by the president of the bank; that he did not know the notes were there, did not know they were forgeries, had never handled the notes, and disavowed all knowledge of same whatsoever. These notes had been in the bank for a period of over two years and the impression was conveyed by his testimony that neither he nor the other directors had made any inquiry concerning the loans in question, or why they were not liquidated. Two trials of the vice-president resulted in disagreement by the juries, and the case will have to be re-tried.

It would appear from the result of these trials that evidence was submitted tending to show an active officer, and the other directors, could be ignorant of vital matters affecting their bank's solvency for a period of more than two years.

### Understanding the Statement

PUBLISHED statements of the condition of their bank are sworn to by two active officers of the bank and then presented to two or more of the directors, who

attest over their signatures that the statement is correct. This is done by these directors in 90 per cent of the cases without any investigation or comparison with the bank's records, and whenever discrepancies are afterwards shown to exist, the directors say they did not know such was the condition, that they were not familiar enough with bank bookkeeping to be able to ascertain for themselves if the statement was correct.

If this is true, they should require active officers to go over the records with them, comparing them with the statement in detail until they are sure they understand the true condition and are able to make an intelligent attest. One or two such audits will qualify almost any director to understand the statement and determine for himself just how the items set out in the report are arrived at. The fact that directors should have personal knowledge of the correctness of published statements attested to by them does not cast any reflection on the integrity of the active officers who prepare the statement, but if these active officers' statement is to be accepted without verification there is no apparent justification for these additional signatures.

These same directors would not sign a note without looking at the amount, neither would they sign a deed without seeing that it accurately describes the property intended to be conveyed, then why should they be so careless as to sign a statement, attesting as correct the disposition of hundreds of thousands of dollars of other people's money and property, without first verifying the correctness of the statement?

## New England Bank Earnings

DESPITE the easy money conditions prevailing in 1924, the interest and discount earned on loans and investments by the 415 Federal Reserve member banks in the first district during the past year was only slightly less than for 1923. Frederic H. Curtiss, chairman of the Boston Reserve Bank, reports that the typical ratio for the reserve district as a whole was 5.5 per cent in 1924, as compared with 5.6 per cent in 1923. "This money situation was felt most by banks located in Boston where rates are most sensitive to changing conditions, and by country banks doing principally a savings deposit business and whose investments consisted of a relatively large proportion of securities," Mr. Curtiss reported. "Securities are generally purchased in the money centers and, therefore, are also subject to changing money conditions. Therefore, banks located in moderate sized communities not too near Boston, and able to loan a large proportion of their funds to local customers, fared best in 1924. The relatively high level of deposits, which afforded an unusually large volume of loanable funds, did much to sustain earnings and offset low interest rates.

"Despite this high volume of loans and investments, the ratio of total current expenses was practically the same as in 1923. Economy and efficiency programs made possible the handling of the increased volume of business without a corresponding increase in clerical costs, and with an actual reduc-

tion in rent, taxes and other miscellaneous expenses. On the other hand, interest paid on deposits was generally higher. Interest paid on borrowed money was practically negligible, banks having less recourse to the Reserve Bank and to their correspondent banks than in any year since 1917.

"Thus, despite low money rates, New England banks were able to close the year with satisfactory net earnings—the result of handling an unprecedentedly large volume of business under rigidly controlled expenditures. Although the high level of deposits and loans and investments produced an appearance of slightly lower earnings ratios in 1924, net earnings in dollars and in percentages of invested capital (capital, surplus and undivided profits) were actually higher than in 1923.

"As is usual, losses were charged off most liberally by the banks showing the largest net earnings. As compared with 1923, losses taken in 1924 were somewhat lower, due in large part to the relatively high levels of security prices and to the general elimination of frozen loans in previous years.

"Banks carrying the largest proportion of savings deposits generally have the highest gross earnings because the low reserve requirements on time deposits entail tying up a very small proportion of non-productive funds. On the other hand, net earnings decline as the proportion of time deposits rise on account of the greater cost of handling savings deposits in banks equipped to do a commercial banking business. Chief among these heavy expenses is interest paid on deposits."

## Corporate Building Bonds

*A type of security which combines the safety of first mortgage real estate bonds with the safeguards and marketability of high grade corporation issues.*



The United Masonic Temple Corporation was organized to erect and maintain a building in Chicago, suitable for Masonic lodges and kindred organizations. It is controlled by a Board of Directors composed of members of the Masonic Fraternity.

The location selected for the building is on Randolph Street west of State, diagonally opposite Marshall Field & Company's retail store.

It is in the center of the shopping and theater district of Chicago.

The building will contain twenty-two stories and two basements. It will include a theater seating over three thousand people; street stores; general business offices on eighteen floors on the Randolph Street frontage; the remaining rentable area being devoted to Masonic purposes.

The First Closed Mortgage Leasehold Sinking Fund 6.50 per cent Gold Bonds of the United Masonic Temple Building, due 1949, will be secured by a first closed mortgage on the leasehold estate and on the building being erected thereon—valued by independent and competent appraisers at over one hundred and ninety per cent of the amount of the loan.

The operation of a sinking fund, through purchase in the open market or by redemption, will retire the entire issue on or before maturity.

The earnings are estimated at over  $2\frac{1}{3}$  times the maximum interest and sinking fund charges.

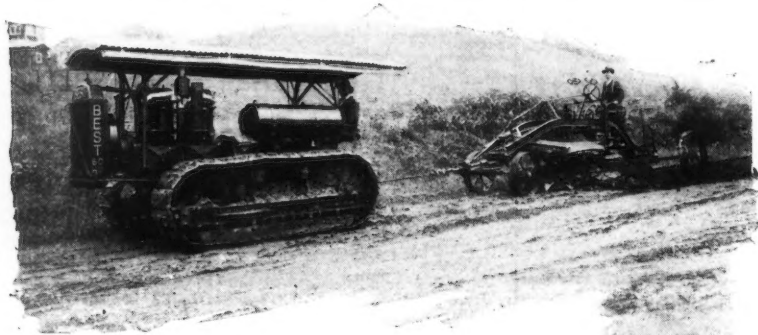
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## New Books

**ENGLISH BANKING METHODS.** L. Le Marchant Minty. Sir Isaac Pitman & Son, Ltd., London and New York. 458 pages.

A description of the English bank written from the viewpoint of a person on the inside. Mr. Minty writes in a style that would explain English bank operation from the point of view of an American banker anxious to do business with an English bank. It describes the organization of an English bank from beginning to end, contrasted with the American institution.

**BUDGET CONTROL.** A. C. Ernst.

This is a business booklet of thirty pages

on the subject of what budget control is and how to do it. It outlines how details of buying, production, financing and selling can be planned in advance, then checked and regulated by actual operations. It will be mailed to executives on request to Ernst & Ernst.

**THE BASIS OF REAL ESTATE VALUES.** John P. Kennedy. 103 page booklet. Bank Business Builders, Associates, Los Angeles.

The chief appraiser of a Los Angeles bank sets forth certain factors relative to the appraisement of real estate. It deals largely with real estate in southern California.

**THE CONSTITUTION OF THE UNITED STATES; YESTERDAY, TODAY—AND TOMORROW?** By James M. Beck, Solicitor General of the United States. 362 pages. George H. Doran Company, New York, publishers.

No thoughtful observer of the trends of our times can have failed to note that as scientific achievement puts more and more power into the hands of the individual, this power has a tendency to beget a spirit akin to lawlessness.

In no particular is the insidious character of this trend plainer than in the state of public opinion with regard to the Constitution of the United States.

Too many of our people know the Constitution only in an academic sense, and even in that way, but little of it, never realizing what it means to their rights, their liberties, and the safeguarding of their properties. They little know or little suspect that "to live under the American Constitution," as President Coolidge declares, "is the greatest political privilege that was ever accorded to the human race."

Ignorance of the Constitution and what the Constitution means to the individual is a problem of the times—acute, grave and dangerous because this ignorance prevails in a class highly intelligent in other things. Intolerance—the companion evil of this ignorance of the restraining influence of the law—bids fair to become an ugly menace.

It is, therefore, no wonder that President Coolidge should have written an earnest foreword to a book which attempts to recall the American people to a sense of their duty with respect to the Constitution of the United States. In introducing the book, "The Constitution of the United States," by James M. Beck, Solicitor General of the United States, Mr. Coolidge wrote:

"While we cannot all be trained in the technicalities of the law, we should all have some idea of our fundamental institutions. We need to know their relationship to our daily life, the reasons for their existence, and the benefits we derive from them, and the necessity to ourselves for their perpetuation. We must know that the Court is *our* Court.

"The Constitution is not self-perpetuating. If it is to survive, it will be because it has public support. Such support is not a passive, but an active, operation. It means making adequate sacrifice to maintain what is of general benefit.

"The Constitution of the United States is the final refuge of every right that is enjoyed by any American citizen. So long as it is observed, those rights will be secure. Whenever it falls into disrespect or disrepute, the end of orderly organized government, as we have known it for more than 125 years, will be at hand.

"The Constitution represents a government of law. There is only one other form of authority, and that is a government of force. Americans must make their choice between these two. One signifies justice and liberty; the other tyranny and oppression."

To the observer, noting the trend of the times and seeking primal causes, Mr. Beck's presentation may come to be regarded in the nature of a "find." Its reading is not a laborious work, but instead a pleasurable

opportunity, for the author has a way of dissipating the smoke screen of unessential and small things, which obscures the vision day by day, and of presenting the essentials in a manner that commands and dominates. Especially true is this in the final chapter, "The Revolt Against Authority," from which we quote:

"Speaking on Christmas Eve a few years ago in an address to the College of Cardinals, the late Pope Benedict gave expression to an estimate of present conditions which should have attracted far greater attention than it apparently did.

"The venerable Pontiff said that five plagues were now afflicting humanity.

"The first was the unprecedented challenge to authority.

"The second, an equally unprecedented hatred between man and man.

"The third was the abnormal aversion to work.

"The fourth, the excessive thirst for pleasure as the great aim of life.

"The fifth, a gross materialism which denied the reality of the spiritual in human life."

\* \* \* \*

"Correctly to diagnose this malady," writes Mr. Beck, "some cause must be found that is coterminous in time with the disease itself and which has been operative throughout civilization; some widespread change in social conditions, for man's essential nature has changed but little, and the change must, therefore, be of environment.

"There is but one such change that is sufficiently widespread and deep-seated to account adequately for this malady of the times.

"Beginning with the close of the eighteenth century and continuing throughout the nineteenth, a prodigious transformation has taken place in the environment of man, which has done more to revolutionize the conditions of human life than all the changes that had taken place in the 500,000 preceding years which science has attributed to man's life on the planet. Up to the period of Watt's discovery of steam vapor as a motive power, these conditions, so far as the principal facilities of life were concerned, were substantially those of the civilization which began eighty centuries ago on the banks of the Nile and later on the Euphrates. Man had, indeed, increased his conquest over nature in later centuries by a few mechanical inventions, such as gunpowder, the telescope, magnetic needle, printing press, spinning jenny and hand loom, but the characteristic of all those inventions, with the exception of gunpowder, was that they still remained a subordinate auxiliary to the physical strength and mental skill of man. In other words, man still dominated the machine, and there was still full play for his physical and mental faculties. Moreover, all the inventions of preceding ages, from the first fashioning of the flint to the spinning wheel and the hand lever press, were all conquests of the tangible and visible forces of nature.

"With Watt's utilization of steam vapor as a motive power, man suddenly passed into a new and portentous chapter of his varied history. Thenceforth, he was to multiply his powers a thousandfold by the utilization of the invisible powers of nature—

such as vapor and electricity. This prodigious change in his powers and, therefore, his environment, has proceeded with ever accelerating speed.

"Man has suddenly become the superman. Like the giants of the ancient fable, he has stormed the very ramparts of divine power, or, like Prometheus, he has stolen the fire of omnipotent forces from Heaven itself for his use. His voice can now reach from the Atlantic to the Pacific and, taking wing in his aeroplane, he can fly in one swift flight from Nova Scotia to England, or he can leave Lausanne and, resting upon the icy summit of Mont Blanc—thus, like 'the herald, Mercury, new-lighted on a heaven-kissing hill'—he can again plunge into the void, and thus outfly the eagles themselves.

"Rodin, the great French sculptor, wrote in 1904 as follows:



Brawley's New Hotel

## How Did Brawley (Calif.) Get ITS Hotel?

If towns and cities in need of modern hotel facilities will follow the example of Brawley, Calif., they'll GET their new hotel!

Brawley's need was for \$100,000; yet in one week's time, through Hockenbury direction, \$122,000 in securities were sold.

Brawley's new hotel originated in the mind of one man—a civic leader. His town needed the thing he proposed and now his town is getting it!

Perhaps YOUR town needs a modern hotel. If your town is ever to GET one, SOMEONE must start it! Perhaps you are the man to start the ball rolling.

THE HOTEL FINANCIALIST, a monthly journal devoted to the subject of community hotel finance, lays bare many of the rocks that strew the course of the success of such a project. Ask us to put your name on our complimentary bankers list "B-5" to receive a copy each month; there's no obligation entailed.

**The Hockenbury System Incorporated**  
Penn-Harris Trust Bldg., Harrisburg, Penna.

"It may be replied that the inventions of science compensate for this deficiency (the neglect of the fine arts) but these inventions are almost exclusively, if not quite, a mere increase in the power of the bodily senses and faculties, the telegraph in that of the tongue, the telephone in that of the ear, the railway in that of the legs, the photographic science in that of the eye; and these inventions leave in ignorance the more intellectual part of the individual. Your portrait can be taken, your voice boxed up. This is extraordinary, but the soul which commands, the god which is in the head, is forgotten."

"In thus acquiring from the forces of nature almost illimitable power, man has minimized the necessity for his own physical exertion or even mental skill. The machine now not only acts for him, but too often *thinks* for him.

"Is it surprising that so portentous a change should have fevered his brain and disturbed his mental equilibrium? A new ideal, which he proudly called 'Progress' obsessed him, the ideal of quantity and not

## GENERAL Income *and* DEFINITE Expense

Overhead and other expense incident to handling active accounts is not properly chargeable to general income. Each account must earn sufficient return to bear its own share of the costs.

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quality. His practical religion became that of acceleration and facilitation—to do things more quickly and easily—and thus to minimize exertion became his great objective. Less and less he relied upon the initiative of his own brain and muscle, and more and more he put his faith in the power of machinery to relieve him of labor.

"As a result, the evil of the age is that its values are false.

"Knowledge is undervalued to wisdom; they are not convertible terms. Quantity, and not quality, is the ideal of the time. Automatic efficiency is the great desideratum, and individual craftsmanship is little regarded as an ideal. Complexity is worshipped, and simplicity is rejected. Standardization is overvalued and originality undervalued.

"Pleasure has become the great end of life, and work but a means to that end; whereas, in former ages, work was the great object of life and pleasure but an incident, the dessert to Life's bountiful repast.

"This age overvalues phrases and undervalues truth. It overvalues rights and undervalues duties. It undervalues individualism and overvalues democracy, for it forgets that, from the beginning of history the salvation of society has been the work of the minority,—that 'saving remnant' of which Matthew Arnold spoke. The age greatly overvalues political institutions; but seems indifferent to the deterioration of the individual. It values power and scorns beauty. To sum it all up—it overvalues matter and undervalues spirit."

**RECONSTRUCTION.** By J. D. Whelpley. 383 pages. \$3.50 net. Funk & Wagnalls Co., New York.

This is an appraisal of the economic conditions of the nations most affected by the world war. The author, who has been abroad on special missions for the United States Government, presents material which he gathered from first-hand sources during his residences in England, France, Italy, Germany and Austria. He stresses the importance of the individual and shows how the mental attitude of the peoples of the world is affecting reconstruction both favorably and unfavorably. International trade before and after the war is examined; emigration and immigration are touched upon, and the conditions in the British Empire, France, Italy, Belgium, Russia, Germany, the war allies of Germany, the European neutrals, and the new governments of Europe are individually analyzed.

### Chain Store Sales

Continued rapid growth of chain store business is indicated by March reports, which showed 16 per cent more stores in operation than a year ago and an 18 per cent increase in total sales, the New York Federal Reserve Bank states. The increase both in number of stores and total sales was particularly marked in the cases of grocery and dry goods systems, which also showed substantial gains in sales per store. Ten-cent stores reported sales keeping pace with store expansion, but in tobacco and shoe-chains sales per store showed considerable decreases.



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Over 400 Banks and Bankers of the U. S. and Canada use the service of the Amalgamated Banks.

## Economizing on Executives

**B**USINESS can economize by getting rid of the overload of unproductive yet comparatively highly paid executives.

This counsel comes from the National Bank of Commerce of New York City, which is reputed to have some of the most desirable commercial accounts of any bank in the United States, and is in intimate contact with nearly every phase of trade.

In its review of financial conditions, the bank frankly states that any economy campaign on the part of business may take into account the elimination of the over-paid executives.

"Practically all classes of business are encountering continued resistance to price advances and a disposition to wait for declines," the bank states. "The result is unremitting competition and a struggle for profits. Better and cheaper processes are being sought and found, and lower wages are being discussed with occasional reductions here and there in some industries, but there is one obvious method of lowering costs which is being overlooked, or if not overlooked, mentioned only with extreme hesitation. That is the elimination of unproductive yet comparatively highly paid executives. Men with vision and the will to make the vision a reality furnish the motive power of their organizations, and there is no yardstick by which the value of their services can be determined. There are many who believe they are of this type, and who during the war years and the postwar boom persuaded others that they were. In consequence many business organizations are now handicapped with an overload of comparatively high-priced executive whose services are unproductive.

"A result of this situation is that such men at high salaries are busied on routine matters which they handle badly or which they try to unload on others by gathering

assistants around them. This evil is always more or less present, being frequently the result of failure of promising employees to develop, as it was hoped they would do when promoted to executive positions, and subsequent lack of courage to correct the errors made. Elimination of unnecessary highly priced officers and employees who are engaged on tasks which lower-paid men could do as well or better will cut into costs. The economy campaign should not pass by the executive staff. When costs have been reduced there, much progress will have been made toward better profits."

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, OF THE AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for April 1, 1925.

I, State of New York, County of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of THE AMERICAN BANKERS ASSOCIATION JOURNAL, and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

11. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd St., New York City; editor, James E. Clark, 110 East 42nd St., New York City, managing editor, none; business manager, James E. Clark, 110 East 42nd St., New York City.

12. That the owner is: (If the publication is owned by an individual his name and address, or if owned by more than one individual the name and address of each, should be given below; if the publication is owned by a corporation the name of the corporation and the names and addresses of the stockholders owning or holding one per cent or more of the total amount of stock should be given.) The American Bankers Association, 110 East 42nd St., New York City. (A voluntary, unincorporated association of banks); William E. Knox, The Bowery Savings Bank, New York, N. Y., president, and Fred N. Shepherd, 110 East 42nd St., New York, N. Y., executive manager.

13. That the known bondholders, mortgages, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

14. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

15. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is —. (This information is required from daily publications only.)

JAMES E. CLARK,  
(Signature of editor.)

I Sworn to and subscribed before me this 14th day of March, 1925.

KATHLEEN R. LITTLE, Notary Public, New York County.

Appointment expires March 30, 1927.

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## Agricultural Forecasting

FARMERS too generally determine how much of a given crop they will grow next year on the basis of present prices, rather than on the basis of prospective prices. As a result they often plant much high-priced seed and use more high-priced fertilizer and labor than usual and then sell the increased quantities of the crop at low price. In turn, they plant lightly of low-priced seed and use little fertilizer, and then have small crops to sell when the prices are going up.

Partly to meet this practical situation and partly to meet a larger and more comprehensive problem, the extensive reports on the agricultural outlook and the reports on intentions-to-plant, formulated and issued experimentally during the past two years by the United States Department of Agriculture, have now been made a thoroughly established part of the work of the Bureau of Agricultural Economics, according to its chief, Dr. Henry C. Taylor. "These reports represent the best thought of our large staff of technical workers," says Dr. Taylor, "tempered by close contact with the practical problems of production and marketing. The purpose of this agricultural forecasting is the wise guidance of production in order that there may continue to be a proper balance between the various lines of production and between agriculture and other industries. Agricultural prosperity in general depends primarily upon the ability of farmers to anticipate the future."

Beginning in 1923, intentions-to-plant reports have been issued in the spring, based on nation-wide inquiries regarding the acreages that farmers intended to plant of various crops, and again in the late summer similar reports are issued for fall-sown crops. Combined with a comprehensive statement as to the agricultural outlook at those periods, which fills a publication of twenty-two closely printed pages, these reports have attracted a great deal of attention.

THIS year the outlook report was issued to the farmers before they were asked as to their intentions to plant, so that their original plans can be based on it. The annual spring outlook statement was issued in February, and as early as November preparations were begun for the exhaustive study, analysis and interpretation of the great mass of information bearing on the situation, both domestic and foreign, that is available in the department. The intentions-to-plant report was issued on March 19.

In the outlook reports, prospects are reviewed as to wheat, corn, oats, barley, rye, livestock and livestock products, feed crops, fruits and vegetables, sugar, flax, rice, peanuts and tobacco, and full consideration is given to related economic factors, such as domestic and foreign demand, factors affecting production costs, farm credit and the use of land and labor. It is believed that the demand information is fully as important as that regarding probable supply. Intentions-to-plant reports for crops are supplemented by intentions to breed and intentions to market in livestock matters.

To give only one concrete example of

the practical use that farmers can and apparently do make of these reports, take the item of tobacco in the very first report issued. To quote Dr. Taylor again, "Upon an examination of the reports on intentions-to-plant compared with estimates of actual planting, issued later, it was found that there was rather a close resemblance in most of the crops, tobacco excepted, between the figures showing the intentions to plant and the figures showing estimated planting. These reports should, of course, resemble one another, except when they show that readjustments are needed because of a tendency to over or under-plant."

"The figures shown by the intentions survey had been considered by the Committee on Agricultural Outlook, which met in April, 1923. When the committee considered these figures, they looked upon the increase of 10 per cent in the tobacco acreage over the previous year, together with its accumulative effect, since it was also 55 per cent above the pre-war average, and they gave a definite warning to tobacco producers in a statement which read: 'There is nothing in the probable demand sufficient to offset the contemplated increase of 10 per cent in planted acreage, particularly when we consider that the 1922 acreage was above the normal and that the trend of prices since 1920 has, on the whole been downward.'

"Whether or not this statement was the occasion of the change in the farmers' idea of what to do, the July estimate showed an increase in tobacco acreage of only 2.1 per cent instead of 10 per cent."

IN the spring of 1924 there was an expressed intention to plant only about the same total acreage of tobacco as was planted in 1923, but the trends of particular types differed, and the plans in one state provided for great local increase. The outlook report for that year specifically pointed out the hazards in such increase in that locality.

There is no doubt, in the opinion of Dr. Taylor, that work of this character, which furnishes the farmers, in advance of planting, information regarding the general trend of acreage, when fully developed by the department and when properly understood and used by the farmers, will go far toward bringing about a better adjustment of agricultural production, will aid in orderly production, which is essential to orderly marketing, and will teach farmers to look and to plan ahead. In time these reports will form a valuable part of the crop-estimating and crop-reporting service, so long considered an essential part of the equipment of bankers, investors and business men.

These intention reports, together with their attendant agricultural outlook reports, are meeting with much favor on the part of intelligent farmers and of workers in other lines of business, although they are severely criticized in some quarters. The Extension Service of the department has reported them as being of great service in its field work. Bankers, merchants and dealers have used the outlook reports in great numbers, and an eminent European

economist has named them as forming one of the outstanding recent contributions toward solving important problems in agricultural economics.

THE historical and statistical analyses of supply, demand and price movement, made in the department, supplement the field work regarding the crops and livestock, particularly with respect to the demand side of the problem, and will do much to provide a strong basis for passing judgment on the agricultural outlook. This work has not the popular appeal of the more obvious and tangible work that relates directly to the farm, but it is of the utmost fundamental importance. Mention of this work brings us to the second and perhaps, in the long run, the greatest objective of this forecasting and outlook work.

For forecasting can be viewed not only from the standpoint of the individual farmer and the merchant dealing in farm products, but also from the national point of view—from the viewpoint of the supply of food and raw materials for the nation throughout a series of years. It is highly important to be looking ahead in order to determine the long-time trend with respect to agricultural development, especially since it may be true that the real long-time trend is obscured by existing short-time trends. From the individual point of view, says Dr. Taylor, forecasting may be the basis of wise farm and marketing practices; from the national point of view it may be the basis of a national agricultural policy.

ALREADY there are healthy signs that somewhat similar methods will be used by progressive states with a view to developing state agricultural programs. Oregon held an agricultural economic conference last year, following a state-wide survey conducted by the state agricultural college, which had revealed that agriculture in Oregon has developed largely under the urge of natural conditions, without due regard to factors that govern marketing, and that the agriculture of the state needs direction.

This conference was attended by 540 delegates, of which the majority were farmers of the state. Many specialists from the state college, experiment station and extension service participated, and the United States Department of Agriculture was called upon to assist. All available information regarding Oregon and its markets was sifted and analyzed, and a condensed declaration of the findings and recommendations of the commodity groups, as adopted by the general conference, was made available to every farmer in the state by means of a printed report, which emphasized the fact that "The conference was a beginning. Its ultimate value depends upon the use of its findings by communities and by the individual producers in whose hands must rest the success or failure of agriculture in Oregon." The recommendations constitute, in effect, a state agricultural program for the next several years.

But even so, the state did not stop here. The state conference was followed up by county conferences in eight counties, and nine of the remaining counties have conferences scheduled or in process of meeting.

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tana, where the college workers interpreted them under Montana conditions and worked out conservative suggestions based thereon.

### Inner Mind

(Continued from page 676)

Federal Reserve Board on the banking situation. The newspapers, which generally feature the high points of the article in press dispatches, attribute the statements directly to the Board. While it is not written by the members of the Board, the statement is approved by a committee of the members, duly appointed to supervise this work. In this sense it may be regarded as an official interpretation of what the changes in banking mean. With the most complete data before it and the aid of trained analysts to assist in weighing the various factors, the Board is in a particularly strong position to arrive at sound conclusions. So even the banker who reads as he runs should not skip this part.

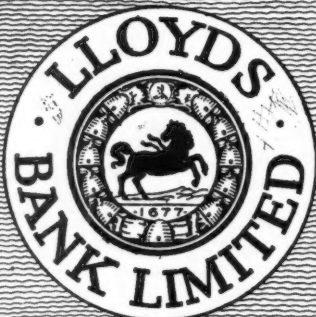
The reading of the summary of business conditions in the United States and a glance at the four charts on production, wholesale prices, Federal Reserve Bank credit and member bank credit prove worth while as they will show the direction business is heading and whether the basic conditions are sound. Should the banker desire to keep in general touch with any commodity, he can obtain this information from reading the digest covering this subject.

What a banker will get from reading the *Bulletin* will depend upon how well his mind grasps the facts and how readily he may carry them over into his everyday experience. This, in turn, depends upon his individual training and habits of thought. No two bankers follow exactly the same procedure so that no single conclusion may be drawn.

No effort has been made to write the *Bulletin* "down" to such a level that its meaning is readily grasped by the man in the streets. It is admittedly the purpose of the Reserve Board to maintain it at a higher level and thus to exercise at least a measure of influence upon the progress of banking thought in the country at large.

the national agricultural outlook report, the New England Research Council, representing the state research bodies of that area, immediately arranged for a more detailed outlook report for the New England states. The executive secretary of the council, previously a member of the staff of the Department of Agriculture, had charge of arrangements, and two department men, experienced in the Federal outlook work, went to Boston to aid in preparing the report. Some of the Northwest states immediately began negotiations for similar localized outlook reports using the national report as a base.

In fact, Montana had a representative at the Department of Agriculture throughout the compilation of the agricultural outlook report. He hurried the findings to Mon-



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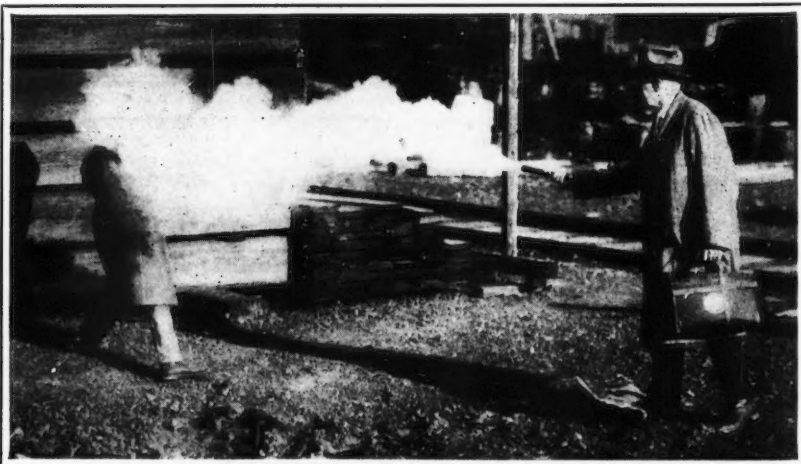
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## The Future of German Banking

WHAT the future policy of German banking should be was indicated in a recent address delivered by Dr. Schacht of the Reichsbank before the German Bankers Association, in which he said:

"German banking may, even today, carry its head high, because it saved from those times of distress something, greater than money and property—the honest name and the respect for the strong individual and moral forces. Even after all heavy blows, German banking has preserved undiminished its reputation and confidence in the home country and abroad.

"The future of German banking certainly does not present itself in the brightest light. You will have to show every skill in order to render to German commerce and industry even a fraction of the services banking has rendered in the past. We shall be supported by the fact that we have a solid soil under our feet, viz.: our currency. I am, of course, unable to forbid speculators to doubt of the stability of German currency, but I beg to draw attention to the fact that the Reichsbank, under the new bank law, possesses autonomy of its currency. I do not think that a Reichsbank's management could be found which would not be determined to maintain gold parity and oblige commerce and industry to adhere to it, instead of adjusting currency to the possible vagaries of commerce and industry. That may sound hard, but it is my firm belief that only by starting from this solid base we shall call forth those economical forces which, without shaking currency, guarantee the maintenance of our foreign balance of payment.

"For the time being there is a larger inflow of foreign credits. As far as I can see, all those credits are, as yet, more or less short-lived. The danger of their being occasionally and temporarily recalled, if the foreign discount rates should rise, cannot be denied. The Reichsbank, therefore, thought it right to take in and to keep a great portion of the foreign exchanges now coming in by way of credits, in order, should the case of credits' recall arise, to place itself at the disposal of German commerce and industry. The reserve of gold and foreign exchanges of the Reichsbank is totaling about two milliards marks. May I draw the attention of those who take credits to the fact that the Reichsbank, if occasion may arise, might feel induced to deliver these foreign exchanges, not against new bills, but only against Reichsmarks, and I, therefore, would point out that, under all cir-

cumstances it will be necessary, while taking in foreign credits, to lay greatest stress on their being employed productively.

"In the interior money market we notice a slow rising of our capital force, so severely weakened. The balances of creditors with the banks, saving banks, the cooperative societies and Reichspost have doubled since the beginning of the new year, as far as the Reichsbank was able to obtain figures, totaling altogether by estimate six and one-half milliards marks. These are, of course, not chiefly savings, the portion of deposits and savings in the true sense of the word being essentially less than in prewar times. Anyhow, commerce and industry are getting more and more accustomed, in contrast to the time of inflation; to maintain larger cash balances with the banks.

"The reaction on the rates of interest has made itself felt, though still to a small extent, and has come nearer to the Reichsbank's discount which has already led to the question of a discount reduction.

"The Reichsbank is still under the rule of the limited credit allotment, which, it is true, since April 7, 1924, is widened by more than 15 per cent, to which are to be added the loans granted by the Gold Discount Bank. Theoretically one could, of course, apply a discount of 5 per cent to the system of allotment. However, it should always be the intention of a note bank to keep the discount rate in a certain ratio to the interest rates of the private capital market. Therefore, I desire that the endeavors of the Reichsbank, to create a private discount market, ought to find more support from the banks than has hitherto been the case. The Reichsbank on its part will do everything in its power to re-establish the private discount market, and only then will it be seen whether the question of reducing the discount becomes acute.

"The question of reducing interest rate and bank conditions will remain an object to be attained mutually in order to promote profitable commerce and industry. As yet the increase of production is accompanied by a considerable increase of workers; that means that we do not have an intensive, but an extensive, increase of production. The passivity of our trade balance is still so great that one should, from every point of view and in due time, face the danger of a reaction on the interior economical and social conditions.

"A moderating effect with regard to this

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danger results from the fact that the price has in the last eight months showed a development more in keeping with the world market prices. The increase of production capacity continues to be the main problem of German commerce and industry."

## Educational Foundation

(Continued from page 694)

American Institute of Banking fully realize what that organization has done for those younger men who have been associated with us. It must be obvious to us now that the time is near when the next step should be taken, and that is to put the means to get still further training in the hands of those likely young men who are coming up. The problems of the financial world are our problems and we must have men coming up who, in addition to knowing the details of the day-to-day operations of banking, will have a broader view based on economic training to handle those questions of national and international importance which the present and the future hold for us."

It is the plan that the funds for this foundation shall come entirely through a free will offering from banks and individuals. There is in no sense any intention to try to levy an assessment through the American Bankers Association. The foundation will represent a purely voluntary contribution of banking to the public welfare. We are confident that this initial amount will mark merely the first stage toward a much larger sum.

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## Organized Banking's Practical Services

By WILLIAM E. KNOX

President, American Bankers Association

THE greater the extension of economic stability and sound business activity among the nations of the world, the broader and firmer will be the foundations for prosperity in the United States and the longer can the present era of business vigor be expected to last. In bringing about economic improvement in Europe such American bankers as Willis H. Booth, president of the International Chamber of Commerce; Henry M. Robinson and Charles G. Dawes of the Dawes Commission, and Fred I. Kent, Chairman of the Commerce and Marine Commission of the American Bankers Association, have played an influential part.

Largely as a result of the Dawes Plan we see the development of the greatest sound money movement in history, with the restoration of Germany and several other nations to a gold standard, with the return of the pound sterling to a gold basis already at hand, and with the prospects daily growing brighter for a solution of the currency problems of France and other continental nations.

The ground work forerunning and making possible the development of the Dawes Plan was participated in by a special committee representing the American Bankers Association at the Rome Convention of the International Chamber of Commerce. At

the instance of the Economic Restoration Committee, Mr. Kent, chairman, a resolution was passed at Rome, outlining the principles that should govern in the settlement of European economic conditions. The principles of this resolution were accepted by the French Government and, by its representatives, called to the attention of the Reparations Commission and therefore became the foundation for the developments resulting in the creation of the Dawes Commission.

American bankers in thus devoting their time and thought to the solution of Europe's economic problems have served greatly not only the nations in Europe but also their own countrymen, for the restored stability that has come to the world largely because of the application of the Dawes Plan has been an influential factor in the business expansion that has prevailed in recent months in the United States.

It is fitting to call attention to these facts at this particular time in order to emphasize the importance of the coming third general meeting of the International Chamber of Commerce to be held at Brussels in June. It is hoped that this conference will develop suggestions for carrying still further the benefits set up by the inauguration of the Dawes Plan, which was not expected to be a final remedy for all

the economic ills of Europe but merely a modus operandi for setting up financial conditions conducive to the revival of international production and distribution.

It seems evident that the industrial capacity of Germany will be able to produce a sufficient surplus of goods to make the reparations payments now in contemplation. However, these goods will have to be transferred to the markets of the world before they will be available for such payments. The problem of the immediate present, then, is to develop ways and means by which these goods may be distributed at a profit so as to be effective and valuable for Germany and, at the same time, not intrude upon or assail the existing markets of the allies or the neutrals. The Brussels Congress, aided by the experts who developed the Dawes Plan, will give its primary thought to this problem and, upon its successful solution, depends our future peaceful economic relations.

The business men and the bankers of the United States have a vital interest in the work of this conference and should feel gratified at the part their fellow citizens are taking in it. The constructive results which it will undoubtedly accomplish will conduce to the continuance of favorable business conditions in this country.



